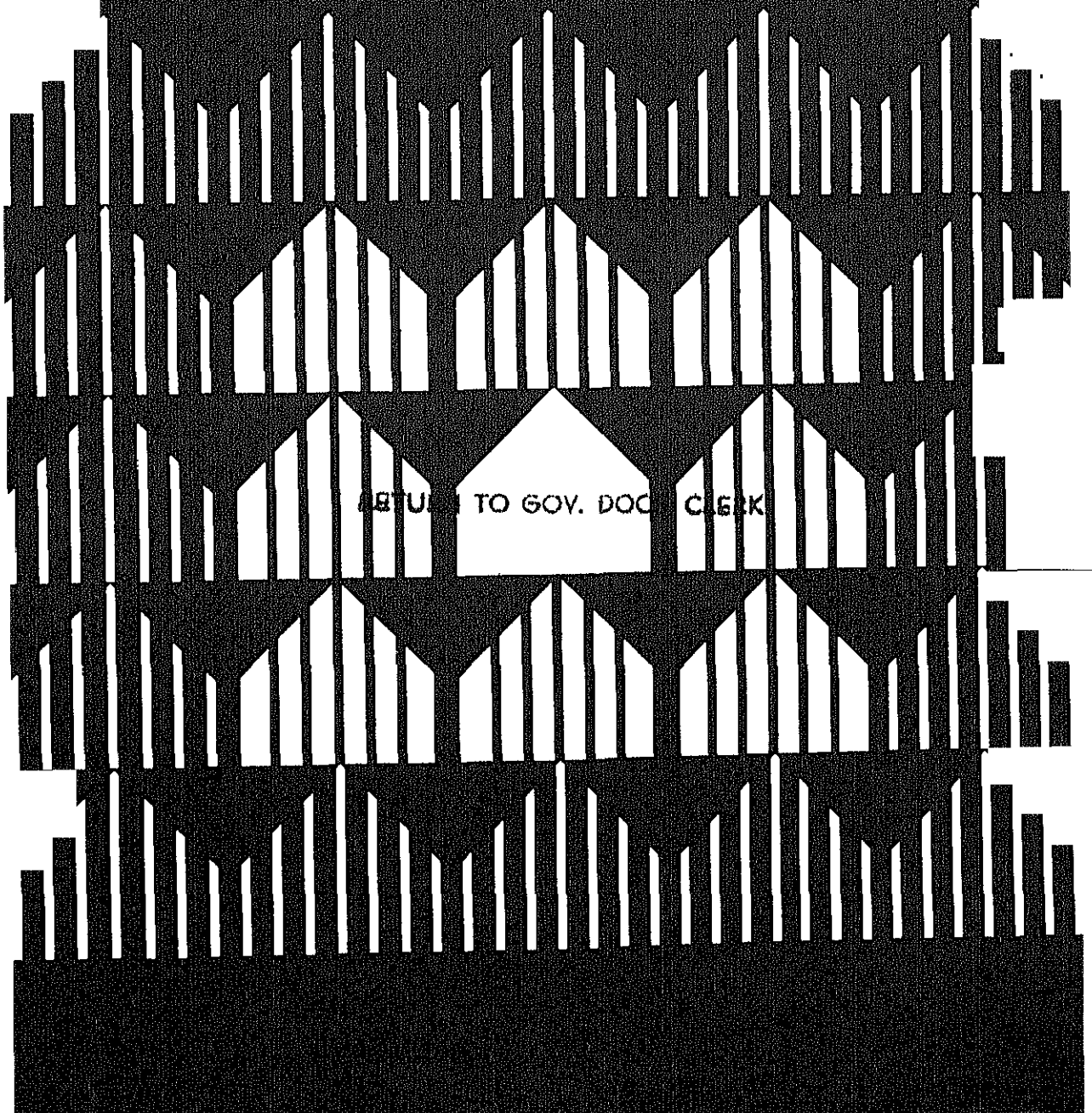
Baseline Analysis of the Urban Homesteading Demonstration



BASELINE ANALYSIS OF THE URBAN HOMESTEADING DEMONSTRATION

October 1978

U. S. Department of Housing and Urban Development
Office of Policy Development & Research

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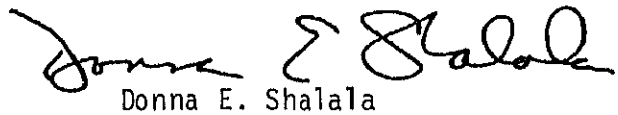
FOREWORD

The simultaneous existence of abandoned houses and lower income families in need of a decent home has long been a vexing dilemma. One solution to this problem lies, I hope, in the Urban Homesteading Demonstration, one of HUD's most exciting and most promising new programs. For the past 3 years, in 23 cities, energetic men and women have been investing their time and energy in "sweat equity" housing repairs that promise a better future for themselves, their families, and their neighborhoods.

While this rehabilitation is going on, data on all aspects of this program are being compiled and carefully analyzed. These analyses will help us determine the success of the Demonstration and the best method of expanding the Urban Homesteading concept to include the many other cities that are in need of it. We have already published several important documents related to the program, and we plan to publish others. The staff at Urban Systems Research and Engineering has done a highly competent job in preparing this report. Earlier drafts received extensive comments from Howard J. Sumka, the Government Technical Representative, and Michael Owen of PD&R's Division of Community Conservation Research.

I am pleased to offer you this report and hope that you will join me in wishing every success to this important program.



Donna E. Shalala
Assistant Secretary
for Policy Development
and Research

PREFACE

This interim technical report on the Urban Homesteading Demonstration is part of a continuing evaluation which has been under way in HUD's Office of Policy Development and Research since June 1976. One purpose of the evaluation is to monitor the programs being implemented in the 23 original demonstration sites. This phase of the analysis will provide information related to the various administrative and implementation procedures employed by the participating cities. Information related to these issues is contained in the First and Second Annual Reports to Congress and in The Urban Homesteading Catalogue.

The second purpose of the evaluation is to provide an impact assessment of the program's effectiveness in achieving two major goals of homesteading. The first is to provide a mechanism to deliver standard housing to households that have demonstrated need for assistance and also have the capacity to bring the house up to local standards. In addition, homesteading is viewed as a means of disposing of HUD-owned property in a manner which will encourage and support the upgrading and stablization of the 40 target neighborhoods located in the 23 cities.

The impact evaluation rests on an extensive data collection and analysis effort, the richness of which is in evidence throughout this report. A three-wave longitudinal research design is being employed to monitor and assess the impact of the program on both participants and neighborhoods. The necessary information is being obtained from periodic surveys of a random sample of residents and from windshield surveys of the areas. These data will be supplemented by detailed inspections ("rehabilitation audits") of the homestead properties and by property transactions data for the 40 neighborhoods and control areas.

The analyses of these data will be made available in future technical reports. This report, as the title indicates, presents the first analysis of the baseline data against which the progress of the demonstration will be evaluated. It also suggests the kinds of analyses that will be performed as future rounds of data collection are completed. It is important to keep in mind that the information presented here is based on only a single wave of data collection, and that supplementary data are not yet available.

The organization of the report reflects the dual focus of the program. The first section, which analyzes homesteaders' experiences, includes as examination of property rehabilitation of the homestead properties. This analysis is based on preliminary data for 116 rehabilitation audits. While these data are not representative of the universe of all homestead properties, the analysis provides important insights into the process of rehabilitation. Innovative analytic approaches are employed to estimate the quality and

value of homesteader sweat equity contributions to rehabilitation. In addition, this section presents estimates of the housing costs of the program participants both before and after they became homesteaders. Based on these figures, preliminary estimates of the benefits which accrue to program participants are derived and separated into two components: reductions in housing costs and increases in housing consumption.

The second section of the report focuses on the neighborhoods in which homesteading is taking place. Baseline characteristics are established through an examination of 1970 census data, and changes that occurred during the period 1970-1977 are examined by comparing the census data with the first-round household survey data. Although such comparisions are often made difficult by a lack of consistency and comparability, important insights into neighborhood change are provided. Specifically, the analysis considers income, race, property values and mobility rates during this period. For each neighborhood, average annual increases in property values are estimated econmetrically. Investments made in residential properties are analyzed for 1977, as are housing costs.

Finally, complementing the "between" neighborhood analyses is a series of "within" neighborhood analyses. These are made possible by an innovative research design in which neighborhood sub-areas are categorized according to distance from homestead properties. Not only does this design permit small-area analysis, but it also provides the capability to estimate the spread effects of rehabilitation.

Although highly technical in parts, this report provides useful insights into the property rehabilitation process and into the analysis of housing programs targeted at the neighborhood. It is also a preview of the urban homesteading impact evaluation which will be possible when the remaining pieces of the longitudinal data set are in place.

EXECUTIVE SUMMARY

The Urban Homesteading Demonstration Program began in May 1975 when the U.S. Department of Housing and Urban Development announced its plans for implementing the urban homesteading provisions of the Housing and Community Development Act of 1974. In October 1975, HUD selected 23 cities to participate in an Urban Homesteading Demonstration Program and, between November 1975 and April 1976, memoranda of agreement between HUD and each of the Demonstration Cities were signed. In June 1976, HUD initiated a longitudinal evaluation of the Urban Homesteading Demonstration program in the 23 Demonstration Cities, which had only just begun to accept and convey homestead properties.

To date, two reports of the evaluation study have been released: The Urban Homesteading Catalogue (August 1977) and The First Annual Report of the Urban Homesteading Demonstration (October 1977). Both of these reports were directed mainly at the issues of design and management of local urban homesteading programs. In this report, the emphasis is on the characteristics of urban homesteaders and of the urban homesteading neighborhoods as they were during the first year of the Demonstration Program.

The design of the Urban Homesteading Demonstration Program reflected HUD's dual objectives in implementing Section 810 of the Housing and Community Development Act of 1974. On the one hand, by returning vacant one- to four-family properties to the occupied housing stock through the mechanism of urban homesteading, it would be possible to improve the circumstances of those selected to become urban homesteaders, through improvements in their housing quality and/or reductions in the level of their housing expenditures. In the second place, by limiting urban homesteading activities to a range of carefully chosen declining neighborhoods and by requiring that local governments commit themselves to coordinated neighborhood preservation activities in those neighborhoods, HUD clearly indicated its intent that urban homesteading contribute to the stabilization of neighborhoods exhibiting signs of early decline.

The evaluation of urban homesteading is designed to assess the performance of the Demonstration Program in meeting both of these objectives.

The Urban Homesteaders

Information on the characteristics, rehabilitation experience and prior housing circumstances of the first 241 homesteaders was collected in early 1977. Fifty-seven percent of these homesteaders were black, four percent belonged to other minority groups and thirty-nine percent were white. Eighty-seven percent of the homesteaders were employed and the average household income of all homesteaders was just over $12,000. The mean age of these homesteaders was 35 years and the size of homesteader households averaged 3.3 persons.

The average annual household income of those selected to become homesteaders was approximately $1,700 higher than the average household income of all those who applied to become urban homesteaders. Comparisons between homesteaders and other residents of the urban homesteading neighborhoods show that homesteader incomes are very close to the incomes of other owner-occupants, but almost 45 percent higher than the incomes of renters in those neighborhoods. The percentage of black households among the homesteaders (57 percent) is slightly lower than the percentage of black households in the neighborhoods (65 percent). The heads of homestead households are typically younger (35 years) than the heads of both owner-occupant (50 years) and renter (39 years) households in the urban homesteading neighborhoods.

The urban homestead properties are generally in need of significant rehabilitation work. Data collected on 116 homesteads on which rehabilitation had already been completed showed that the homesteaders, their families and friends contributed an average of eight work weeks of their own time to the repair of the property. The homesteaders' efforts were typically limited to the lower skill tasks such as site work and demolition (40 percent) and finishes (37 percent). Only 5.5 percent of the homesteaders' self-help hours were spent on electrical and mechanical work. The return on homesteaders labor inputs averaged $4.12 per hour; this was calculated as the average amount by which contractor charges were reduced through the application of an hour of homesteader self-help work.

In general, the quality of workmanship and materials employed, both by contractors and by homesteaders, was satisfactory. Ninety-five percent of the tasks performed by contractors and 83 percent of the tasks performed by homesteaders were rated as being at or above standard quality in terms of workmanship. Both contractors and homesteaders selected materials which were either

standard or above standard quality in over 95 percent of all tasks requiring new materials.

The average cash expenses for rehabilitation of the first 241 homesteads averaged $7,345 per property. Sixty-five percent of the total costs were financed through borrowing from a variety of sources, including banks and thrift institutions, municipal loan programs and the Federal 312 program. The average interest rate for these loans was six percent and the mean term of the loans was 14 years. Homesteaders' monthly housing costs averaged $148, including debt service (38 percent), utilities (48 percent), taxes (nine percent) and insurance (four percent). This constitutes an average reduction of $63/month when compared to their $211 monthly housing costs prior to becoming homesteaders. In addition, the homesteaders have typically improved their housing as measured by the monthly market value of the housing services they now receive. The value of this incremental benefit is estimated to be $37/month. In sum, therefore, the dollar value of the benefits to homesteaders, both in cash ($63) and in kind ($37), is estimated to be $100.

The Urban Homesteading Neighborhoods

Urban homesteading activity was underway in 40 designated neighborhoods distributed across 22 of the 23 Demonstration Cities in early 1977. These neighborhoods had all been selected subject to HUD's criteria that they evidence early stages of decline. Each of the Demonstration Cities had committed itself to undertake neighborhood preservation activities in these areas in addition to urban homesteading. Evaluation of the success of the Urban Homesteading Program as a neighborhood stabilization tool involves examination of the extent to which the demand for housing in these neighborhoods is sustained or revived by neighborhood preservation efforts and the extent to which owners of properties respond to the stabilization of demand by maintaining and rehabilitation their properties.

Examination of changes in these neighborhoods during the seven years prior to the Urban Homesteading Demonstration provides some insight into the process of change in neighborhoods experiencing decline. Comparisons of 1970 Census data with data collected in 1977 show that over the seven-year period the mean household income of residents of those areas declined from 88 percent of the national average household income to 72 percent of the national average. From 1970-77, the percentage of black households rose from 45 percent to 65 percent across all neighborhoods and by more than five percent in 27 of the 40 neighborhoods. During the same period, homeownership rates actually increased from 54 percent to 65 percent. The average annual rate of increase in property values was modest, only 2.5 percent, well below the national average of appreciation in home values over the period. Notwithstanding the continuous decline

in the relative economic status of these neighborhoods, mobility rates were not significantly different from national averages, although two neighborhoods experienced an almost complete exchange of populations.

Examination of expenditures for home improvements and repairs in the urban homesteading neighborhoods in the first year of the Demonstration provides somewhat encouraging findings. Fifty-five percent of all owner-occupants had invested in their properties during the previous 12 months and the average investment expenditure per dwelling unit of all owner-occupants was $442 during that period; this is modestly higher than Census Bureau estimates of home improvement and alteration expenditures for all central city residents of $405.

Evidence of the relative decline of property values during the seven years prior to the Demonstration has already been reported. By 1977, the mean value of a single-family owner-occupied property in these neighborhoods was $20,692, or approximately 76 percent of the mean value of all single-family owner-occupied properties in the same SMSA's. The average monthly housing costs of owner-occupants in the urban homesteading neighborhoods was $208 and the average monthly housing costs of renters was $197. Including the cash expenditures on home improvements and repairs, the shelter costs of residents in the urban homesteading neighborhoods accounted for approximately 26 percent of their mean household incomes.

There is striking evidence of differences in the characteristics of residents and in the conditions of properties, streets and sidewalks within the urban homesteading neighborhoods. The percentage of white households doubles from 20 percent to 40 percent as one moves from the same or adjacent street to an urban homestead property to a street which is more than three blocks removed from an urban homestead. The physical conditions of properties and of streets and sidewalks are all worse in the immediate vicinity of homesteads. The rate of homeownership is highest in the sub-areas around homesteads which have the highest concentrations of minority populations and the highest rates of housing and neighborhood deficiencies. Taken together with the evidence of racial and tenure pattern changes since 1970, these findings suggest change takes place unevenly within neighborhoods. The location of homesteads, which were previously FHA foreclosed properties, serves to pinpoint sub-areas undergoing transition of this kind.

The data on the urban homesteading neighborhoods collected during the first year of the evaluation is of interest in its own right and, when combined with 1970 Census data, for the insights it provides on past change. It will also serve as a basis for comparison with data collected in subsequent years of the Urban Homesteading Demonstration as the evalution of the neighborhood impact of Urban Homesteading Demonstration proceeds.

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I. INTRODUCTION

The Urban Homesteading Demonstration Program was initiated in May 1975 when the U.S. Department of Housing and Urban Development (HUD) announced its plans for implementing the urban homesteading provisions of the Housing and Community Development Act of 1974. In August of 1975, 61 cities submitted applications to receive HUD-owned vacant one-four family properties for use in local urban homesteading programs. In the following October, HUD announced its selection of 23 Demonstration Cities and, between November 1975 and April 1976, memoranda of agreement between the 23 cities and HUD were signed. In June 1976, HUD initiated a longitudinal evaluation of the urban homesteading program in the 23 Demonstration Cities which had only recently begun to accept and convey homestead properties.

In the two years which have elapsed since the urban homesteading evaluation began, the scope of the Urban Homesteading Demonstration has been significantly enlarged. In October 1976 and in July 1977 further allocations of Section 810 properties were made available to the 23 Demonstration Cities, more than doubling the allocations which they received initially. In May 1977, a further 16 Demonstration Cities were added as the result of a second competition. Shortly thereafter, the operating responsibility for the urban homesteading program was transferred within HUD from the Office of Policy Development and Research to the Office of Community Planning and Development; this move was intended to facilitate the establishment of urban homesteading as an operating as opposed to a demonstration program, although the commitments to the original 39 Demonstration Cities remain in effect.

The evaluation of the urban homesteading program has continued to focus on the experience of the 23 original Demonstration Cities, although the scope of the inquiry has expanded somewhat as a result of the continued allocations of homestead properties to those cities. The evaluation study has two principal objectives. The first is to examine, describe and report on the ways in which local governments

have approached the design and management of local urban homesteading programs; this includes the collection of data from local government officials, lenders, community representatives and the homesteaders themselves; it also includes the collection of data on the costs, quality and timeliness of rehabilitation of the urban homestead properties. Much of this information has been reported in The Urban Homesteading Catalogue (August 1977) and in the First Annual Report of the Urban Homesteading Demonstration Program (October 1977).

The second objective of the evaluation study relates to the measurement and analysis of change in the urban homesteading neighborhoods. In its design of the Urban Homesteading Demonstration Program, HUD made explicit its neighborhood preservation purposes. Urban homesteading would be limited to approved areas which exhibited signs of early decline, but which were judged to have potential for regaining their viability. In addition, the Demonstration Cities were required to undertake coordinated efforts to upgrade community services and facilities. Homesteading was, therefore, to be viewed as one element in a coordinated attempt to stabilize and preserve neighborhoods which had been carefully chosen to meet HUD's early decline criteria. To evaluate the demonstration experience in terms of the program's neighborhood stabilization objectives, a three-wave longitudinal survey of the urban homesteading neighborhoods was planned. Each wave was designed to provide comprehensive and statistically reliable data on the physical conditions of the urban homesteading neighborhoods and on the characteristics, behavior and attitudes of residents of the urban homesteading neighborhoods.

This report has been designed to provide a statistical description of the urban homesteaders and of the urban homestead neighborhoods based on the initial survey wave, conducted during the first year of the evaluation study. The report is organized into two major sections, which correspond to the dual objectives of the Demonstration Program itself. In Section II, The Urban Homesteaders, the socio-economic and demographic characteristics

of the first group of urban homesteaders are presented and discussed. This is followed by an examination of the rehabilitation experience, based on inspections of the properties and information provided by the homesteaders; this discussion covers the kinds of work performed, the costs incurred, the quality of workmanship and the contribution of sweat-equity. Finally, the sources of homesteader finance, the cash expenses of homesteaders and preliminary estimates of the benefits to homesteaders are presented and discussed.

In Section III, The Urban Homesteading Neighborhoods, the neighborhood focus of the Demonstration is further discussed. The economic issues of neighborhood change are examined and past change in the urban homesteading neighborhoods, based on comparisons between the baseline survey wave and 1970 census data, is discussed and analyzed. Data on investment and property values are presented and systematic variations in the demographic and physical circumstances of residents and properties within the urban homesteading neighborhoods are described and discussed. Finally, the overall results of the first survey wave in the urban homesteading neighborhoods are summarized and reviewed in the light of the contrasts to be made as subsequent waves of data become available for analysis.

This report is written for a varied audience. The information on urban homesteaders and urban homestead neighborhoods may be of interest to representatives of community groups, to local government officials with housing and community development responsibilities, to academic audiences especially in the fields of urban affairs and city planning, and to others concerned, directly or indirectly, with housing and community development issues. The report deals with a rather broad range of topics; many of these will be addressed in more detail by subsequent reports of the project.

Section II

THE URBAN HOMESTEADERS

II. THE URBAN HOMESTEADERS

Urban homesteaders are selected on the basis of criteria and procedures developed by the staff of local urban homesteading programs. Each of the local programs has been free to choose its own approach to the selection of homesteaders subject only to the requirement of Section 810 that consideration be given both to the applicants' "need" and to their "capacity" to make the necessary repairs to the property. In practice, local programs have adopted a wide range of approaches to the publicity, screening, selection and matching to properties which are all part of the process of selecting urban homesteaders.

The results of the Demonstration Cities' screening and selection processes can be examined through comparisons of successful and unsuccessful applicants and through the examination of the socio-economic and demographic characteristics of the homesteaders selected. It is also of some interest to compare the homesteaders to other residents of the urban homesteading neighborhoods.

Comparisons between successful and unsuccessful applicants were carried out through an examination of application forms submitted to each of the 23 Demonstration Cities in the fall of 1976. Because the information provided on those forms is generally quite limited and because the forms differ from one Demonstration City to another, the number of characteristics on which it is possible to compare successful and unsuccessful applicants is also limited. The sample included 1,139 unsuccessful applications and 594 successful applications. In Table II.0-1, successful applicants are compared with all applicants, both successful and unsuccessful.

Successful and unsuccessful applicants differ sharply from one another with respect to household income, where there is a $1,700 annual difference, but are otherwise quite similar. The successful applicants have a slightly higher percentage of male heads and the percentage of these and four-person households is higher for successful applicants (42 percent) than for unsuccessful applicants (34 percent). The higher income of successful

Table II.0-1

COMPARISON OF SUCCESSFUL VS. ALL APPLICANTS*

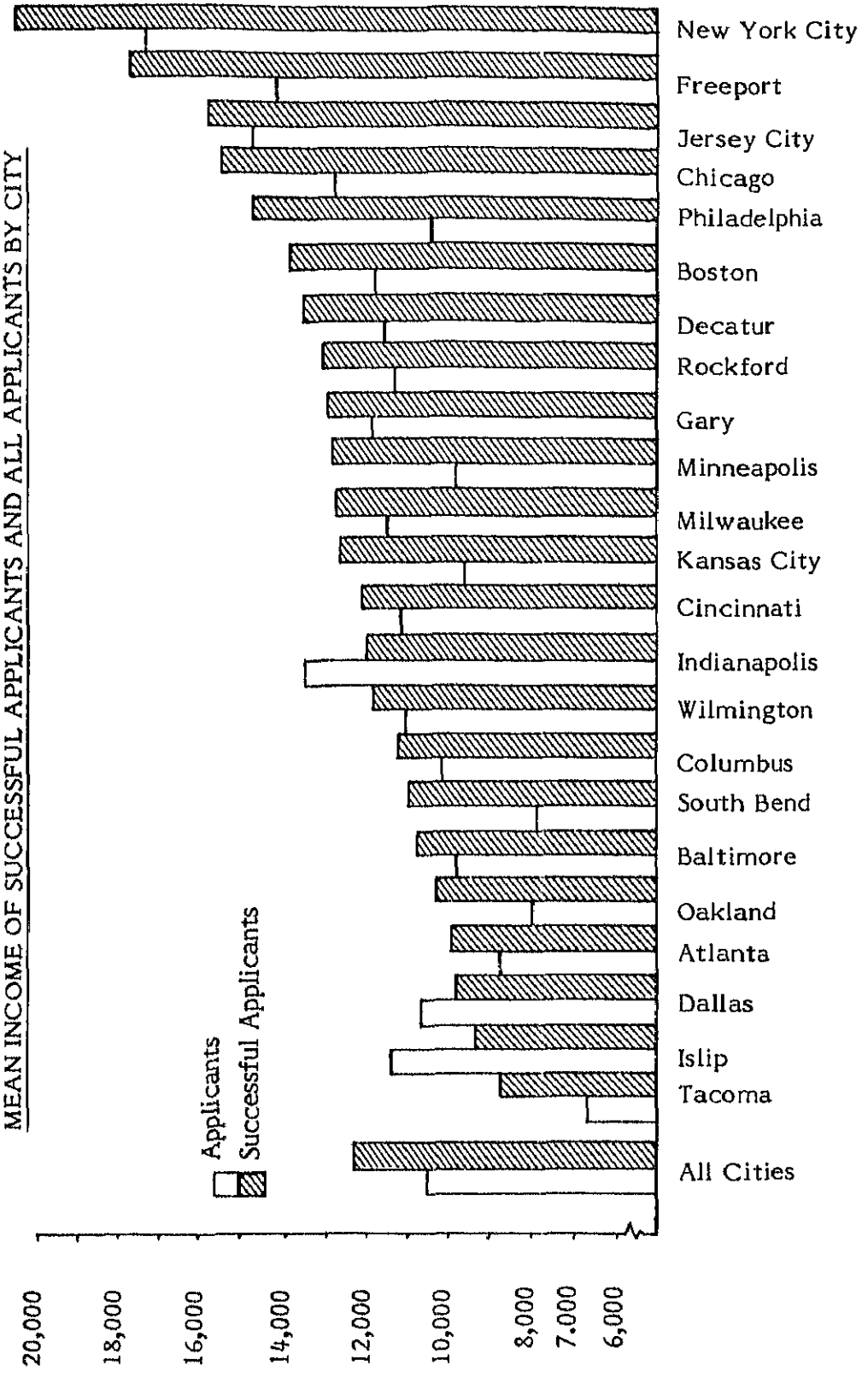
Characteristics	All Applicants	Successful Applicants
% Male Head of Household	65	72
% Married	50	50
Mean # of Persons in Household	3.2	3.0
Mean Age of Head of Household (Years)	35	34
Mean Household Annual Income	$10,600	$12,300
% Renters	87	88
Mean Previous Housing Cost	$160	$155

* Based on sample of 1,139 unsuccessful and 594 successful applications examined in November-December 1976; because of the differences in data sources, there are modest differences between the characteristics of these 594 "successful applicants" and the characteristics of the 241 early homesteaders.

applicants evidently reflects the concern of most local urban homesteading programs that the participants have adequate income to meet the cost of rehabilitation. In only three of the Demonstration Cities (Dallas, Indianapolis and Islip), was there evidence of a preference for households with lower incomes (Figure II.0-1).

More comprehensive information on the socio-economic and demographic characteristics of the urban homestead families is provided by household interview data with 241 urban homesteaders who were occupying their properties by November 1, 1976. These early homesteaders were distributed across 17 of the 23 Demonstration Cities; in the remaining six Demonstration Cities, there were no homesteaders occupying properties at that time. Because these 241 household interviews constitute a different sample than the "successful applicants" on whom data were collected through examination of application forms, there are modest differences in the reported characteristics of the two groups.

Figure II.0-1


MEAN INCOME OF SUCCESSFUL APPLICANTS AND ALL APPLICANTS BY CITY
Applicants
Successful Applicants
20,000
18,000
16,000
14,000
12,000
10,000
8,000
7,000
6,000
New York City
Freeport
Jersey City
Chicago
Philadelphia
Boston
Decatur
Rockford
Gary
Minneapolis
Milwaukee
Kansas City
Cincinnati
Indianapolis
Wilmington
Columbus
South Bend
Baltimore
Oakland
Atlanta
Dallas
Islip
Tacoma
All Cities

The average size of an urban homestead household is 3.3 persons and 60 percent of these households are headed by married persons with both spouses present. The mean age of the head of household is 35 years and, on average, homesteaders have 12.7 years of formal education. Fifty-seven percent of urban homesteaders are black, 39 percent are white and four percent are of Spanish or other racial origin. Eighty-seven percent of the heads of homestead households are currently employed, 12 percent are unemployed and one percent is in retirement. The mean household income of homesteaders is $12,030 and 73 percent of homestead households have incomes between $7,000 and $17,000 per annum. Eighty-nine percent of homesteaders rented their previous residences.

It is of interest to compare the socio-economic and demographic characteristics of the urban homesteaders with those of the residents of the urban homesteading neighborhoods. In view of the stated neighborhood stabilization objectives of the urban homesteading demonstration, the ability of the homesteaders to maintain and occupy their properties during the three-year residency period is of some importance. In addition, homesteaders constitute a significant percentage of new home-buyers in the urban homesteading neighborhoods.[1]

The contrast between the early homesteaders and the residents of the urban homesteading neighborhoods (Table II.0-2) is interesting

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[1]Approximately 7.5 percent of the owner-occupied housing stock changes hands annually in urban homesteading neighborhoods and 63 percent of the housing units are owner-occupied. Since there are about 210,000 dwelling units in the 40 urban neighborhoods in which homesteading was active in early 1977, this means that there were approximately 10,000 new home-buyers in all neighborhoods. The first round of the urban homesteading program will account for around 1,000 homesteaders, or approximately ten percent of all new home-buyers in those neighborhoods.

Table II.O-2

SOCIO-ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS
OF URBAN HOMESTEADERS AND NEIGHBORHOOD RESIDENTS

	Neighborhood Residents			Homesteaders
	Renters	Owner-Occupants	All Residents	
Age	39.3	50.2	46.5	35.1
Sex (Male Head %)	44.0	62.0	55.7	75.0
Race (%Black/%White)	76/18	61/36	65/31	57/39
Household Income (Mean $/Year)	8,300	11,900	10,675	12,030
Household Size	3.1	3.5	3.4	3.3
Education (Years)	11.0	11.2	11.1	12.7
Employed - Head of Household (%)	64.5	73.2	70.1	87
Welfare Income (% Receiving Welfare)	26.6	5.1	12.5	5.8
Percentage of Total	35	65	100	--

in a number of ways.[2] Compared to the population of all neighborhood residents, the homesteaders appear to be better off in several respects. Homesteader households have over $100/month more income than other residents, they are more frequently employed, are somewhat better educated and far fewer homesteaders depend on welfare income. When the comparison is made between homesteaders and owner-occupants in the urban homesteading neighborhoods, however, the disparities in economic circumstances become much smaller. The household incomes of the two groups are almost the same and the difference in employment rates can be largely attributed to the

[2] In comparing the homesteaders with other residents of the urban homesteading neighborhoods, there is an issue as to whether the resident populations in each of the neighborhoods should be weighted in proportion to the number of homesteads in that neighborhood. In a sense, this is a more interesting contrast to draw, but it has the disadvantage that in succeeding reports, as the number of homesteaders change, the weighted characteristics of the residents will also change, requiring reconciliation with other data on residents and with earlier findings. For these reasons, the comparisons presented here focus on the comparison of the 241 urban homesteaders with the aggregate population of all 40 urban homesteading neighborhoods.

higher percentage of retired household heads among the older owner-occupant group.

In comparing the demographic characteristics of the homesteader and resident populations, the comparative youth of the homesteader heads of household is striking. The homesteader heads are on average over 15 years younger than other owner-occupants and over four years younger than the heads of families which rent their housing units. In another respect, homestead households are also unlike the households of existing residents. Seventy-five percent of the urban homestead households have male heads; this compares with 62 percent of the owner-occupant households and only 44 percent of the renter households. The homesteaders also include a higher percentage of white families than the resident households, although the difference is modest. Overall, 57 percent of the homestead households were black compared to 61 percent of the owner-occupants and 76 percent of the renters.

In general, the homesteader families appear to be quite similar to the population of existing owner-occupants with respect to everything but age. The resemblance between homesteaders and owner-occupants in terms of their economic circumstances suggests that local officials may have been more concerned with selecting families who could undertake the financial obligations of homeownership than with finding families who needed the write-down in the value of the property which homesteading provides. As a result, household income of homesteaders is comparable with that of other homeowners, but their monthly housing expenses are typically much lower than both homeowners and renters in the same neighborhoods.[3]

The urban homesteaders receive housing services on a different basis from either owner-occupants or renters, however. Unlike owner-occupants, they must typically undertake major repairs to their properties before they can occupy them and they do not hold clear title to their properties until and unless the repairs have been made and the minimum three-year residency period has been completed.

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[3]For information on homesteader housing costs, see p. 21; for information on neighborhood resident housing costs, both owners and renters, see p. 77.

Unlike renters, they cannot lease their properties and live elsewhere without involving the significant loss of their equity in the homestead property.

The attractiveness of this program to the urban homesteaders depends to a large extent, therefore, on the experience of rehabilitation and on the costs they must incur after the rehabilitation is complete. These topics are addressed in the material which follows.

- The Rehabilitation of Urban Homesteads deals with the nature and extent of rehabilitation, the quality of workmanship and the choice of materials, the costs of rehabilitation and the contribution of self-help to the repair of urban homestead properties (Section II.1).
- The Housing Cost of Urban Homesteaders examines the total costs of rehabilitation, the sources of financing, the monthly housing costs of urban homesteaders. Preliminary estimates of the amount and composition of benefits received by homesteaders are also presented (Section II.2).

The experience of homesteading which emerges from the preliminary findings which follow is rather encouraging. Rehabilitation is a mangeable process for the homesteader in terms of the costs incurred, the demands on the homesteaders' time and energies and the quality of the final product. Homesteaders are securing the necessary financing on reasonable terms, are in many instances receiving some benefits in terms of property tax abatements and generally are able to reduce their housing costs by participating in the program. They also are enjoying a higher level of housing services after the rehabilitation is complete.

II.1 THE REHABILITATION OF URBAN HOMESTEADS

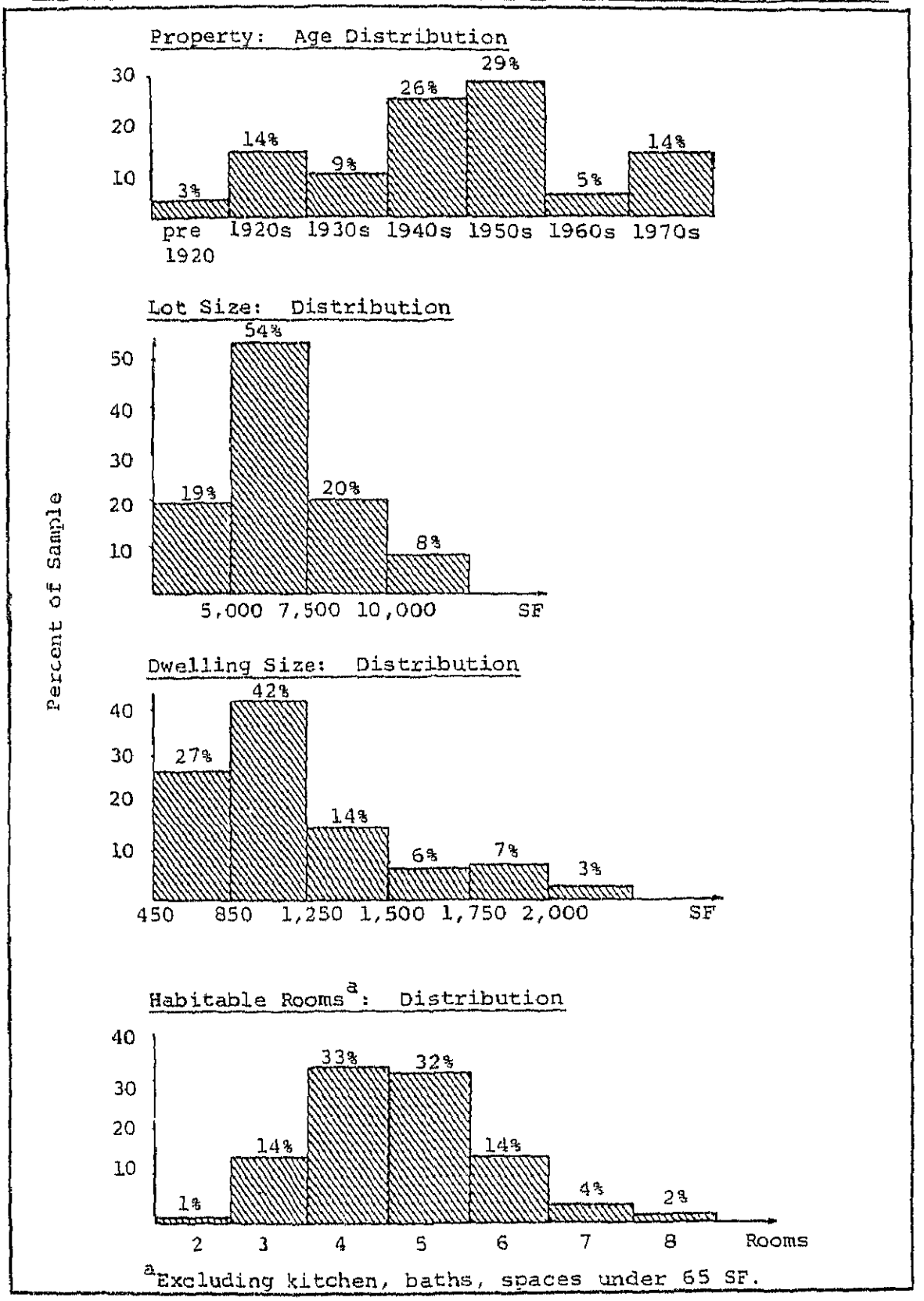
One of the central interests in the evaluation of the urban homesteading program is the effectiveness of urban homesteading as a means of rehabilitation HUD-owned one- to four-family properties which are in serious disrepair. The interest in rehabilitation is quite comprehensive. What are the costs associated with rehabilitation through the mechanism of urban homesteading? To what extent can self-help efforts contribute to reducing the payments which would otherwise have to be made to contractors? What kinds of repairs and what types of materials are needed to restore these properties? What is the resulting quality of workmanship and materials when rehabilitation is carried out through the mechanism of locally-run urban homesteading programs? These questions are critical to the overall assessment of the Urban Homesteading Program and the answers to them can contribute to the design of future local urban homesteading efforts beyond the demonstration.

In this Section, a preliminary description and analysis of data collection on 116 urban homestead properties in seven of the Demonstration Cities is presented. The characteristics of these properties in terms of age, lot size, dwelling size and the number of habitable rooms are shown in Figure II.1-1. These properties were each insepcted by a licensed architect using a survey instrument, referred to here as a "rehabilitation audit" instrument. The data collected in the course of these inspections include descriptive information on the property, an inventory of work performed on the property in the course of rehabilitation, estimates of the costs incurred during rehabilitation, a detailed breakdown of work performed and materials purchased by the homesteader and a task-by-task assessment of workmanship and materials for both contracted and self-help tasks.

The inspection of each property is scheduled as soon as possible after completion of the rehabilitation. Because the inspection is conducted after completion, it is possible to obtain

Figure II.1-1

CHARACTERISTICS OF 116 REHABILITATION URBAN HOMESTEAD PROPERTIES



quality assessments and final cost figures. However, the timing of the audit hampers the observer's capacity to note and evaluate major repairs to electrical, plumbing, or heating systems. This trade-off is acceptable given the requirements for code inspection on these major mechanical and service repairs. However, as a result, the rehabilitation audit provides more detail on the efforts of the homesteader as opposed to contract work.

It is important to bear in mind that there is no reason to believe that the 116 properties on which the findings of this discussion are based are representative of the universe of Section 810 properties. Indeed, because these properties were among the earliest properties on which rehabilitation was completed, it is likely that they are unrepresentative. For example, the average rehabilitation costs on the 116 properties is $5,600 compared to the average estimated rehabilitation costs of $6,065 for homestead properties in these seven cities, and the average estimated rehabilitation costs in all cities of $8,414. These estimates were developed and provided by local government staff based on the results of city inspections. Typically, therefore, these properties require less work than the average urban homestead. It may also be true, given that each of the seven cities represented permits a significant homesteader contribution to the repairs, that rehabilitation work on these 116 properties included a higher percentage of self-help work than would be true of the typical urban homestead rehabilitation job. These qualifications should be borne in mind throughout the material which follows.

Task Breakdown of the Rehabilitation Effort

The rehabilitation audit data permit description of the nature of the rehabilitation effort on early urban homesteads. Each task except demolition work and site preparation performed in the process of homestead rehabilitation is identified on the instrument.

Tabulations of work performed can be used to generate a count of the frequencies of individual tasks. Of the 30 most frequently

observed tasks, nine involve painting; five cover the installation of new appliances; three relate to floor coverings; and two involve patching wall surfaces. Only five tasks on the list of 30 involve licensed trades, and most of these are minor jobs that are within the capabilities of the homesteader.

The breakdown of homesteader effort is perhaps most usefully described in terms of the distribution of the homesteader's labor hours between major categories of activity. Figure II.1-2 breaks down the total hours of self-help labor into ten categories. These categories include site-work and demolition, which were not recorded as separate tasks in the course of the audit. Forty percent of those hours are dedicated to demolition or site work, while another 37 percent is applied to finishes. Only 5.5 percent of time is spent on mechanical or electrical work by the average homesteader. In general, the first 116 audits show a clear tendency for the homesteader to concentrate his efforts in relatively low skill tasks. The seven local programs represented by these observations have differing standards and attitudes toward self-help, but the pattern of tasks undertaken by homesteaders is remarkably consistent across them.

Quality of Workmanship and Materials

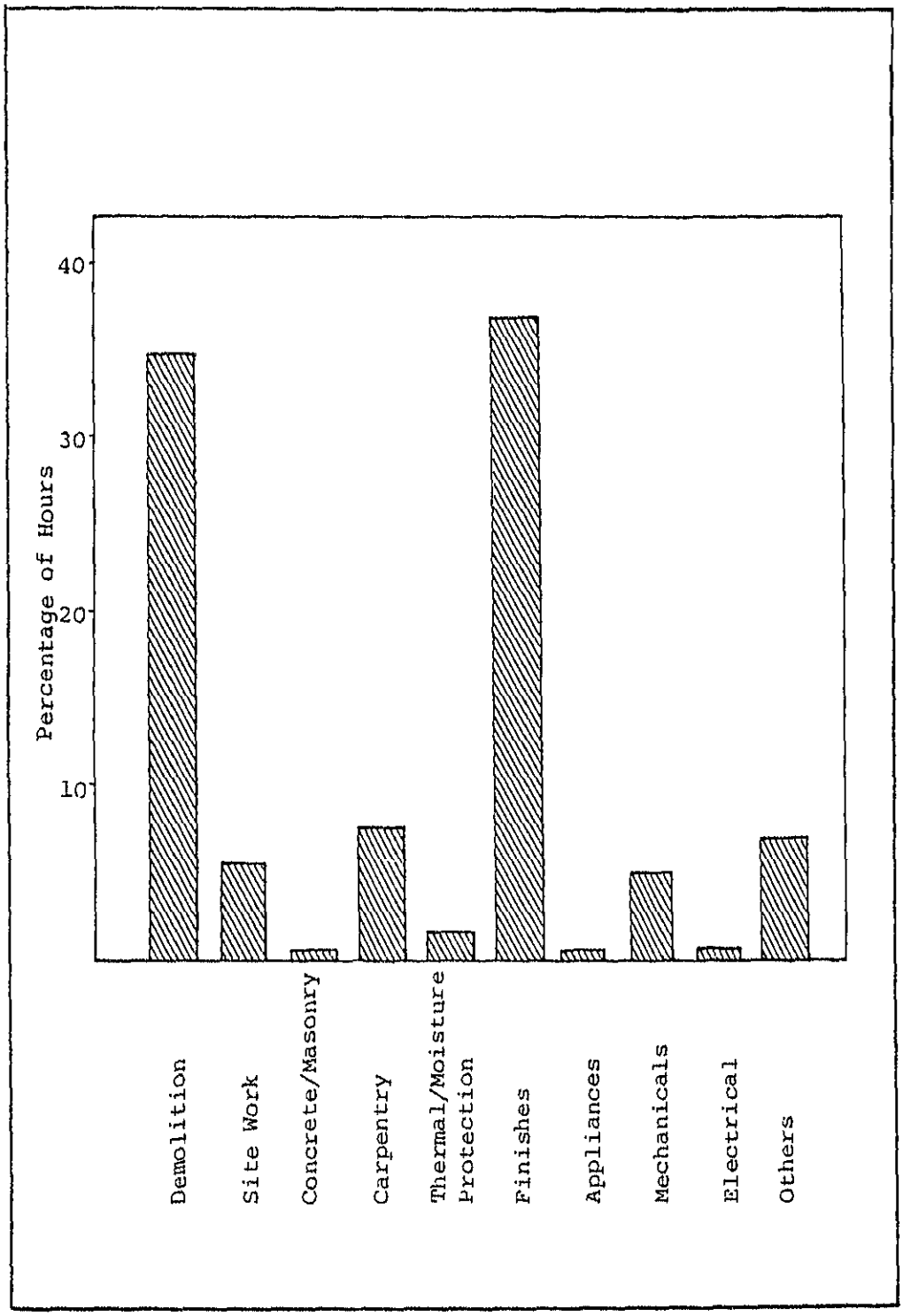
For each instance of new work performed in the course of the rehabilitation, a professional assessment was made of the quality of workmanship and the quality of materials employed. From these assessments it has been possible to describe the quality of the rehabilitation performed and to compare the results produced by self-help to the results produced by contractors.

It is useful to begin by describing the standards which were employed by the architect/observer:

> ABOVE STANDARD: Craft quality workmanship and materials that are better than those typically used in the home building industry.

Figure II.1-2

DISTRIBUTION OF SELF-HELP HOURS BY TASK CATEGORY



STANDARD: Good quality, trade or professional level workmanship and materials that are typical in the home building industry.

MINOR SUBSTANDARD: Noticeably defective workmanship or materials which should be corrected, but which do not require replacement.

MAJOR SUBSTANDARD: Unacceptable workmanship requiring repair or very poor materials; workmanship which will wear out quickly or is susceptible to damage.

These standards are described in more detail in the instructions for field staff, together with examples of the specific types of conditions or materials which would fall into each category. The intent was to use conventional home construction standards to assess the quality of rehabilitation.

Each task involving construction or installation of new equipment, was rated on the quality of workmanship and the quality of materials according to the categories described above. The overall findings (Figure II.1-3) are quite striking. Of all tasks performed by contractors, 94.6 percent were of standard or above standard quality in terms of workmanship. Of all tasks performed by homesteaders 83.3 percent were rated standard or above standard in terms of workmanship. This is a particularly important finding in the light of doubts frequently expressed about the effectiveness of self-help rehabilitation work by non-professionals; it should be recalled, however, that homesteaders have typically undertaken lower skill tasks.

The comparable findings on materials choice are also reassuring. The materials used by contractors were rated standard or above standard on 97.4 percent of all the contracted tasks and the materials used by homesteaders were rated standard or above standard on 95.8 percent of all tasks performed by the homesteader.

It is clear that the average quality of the rehabilitation work delivered through the mechanism of the seven local urban homesteading programs represented by these properties is satisfactory. The incidence of substandard materials choice is more

than offset by the use of above standard materials. In less than one percent of all tasks is there indication that either workmanship or materials is major substandard. There is evidence that homesteaders have a higher incidence of minor substandard workmanship, with 15.8 percent of workmanship on self-help tasks being rated minor substandard, as opposed to 4.8 percent of minor substandard contractor workmanship.

The overall findings of the rehabilitation quality assessment are very encouraging. Many individuals with rehabilitation experience have, in the past, expressed misgivings about potential quality control problems when self-help labor is used in rehabilitation. It is clear from the analysis of rehabilitation quality in these seven cities, each of which permits significant self-help labor inputs, that these problems can be avoided through the sensible management and monitoring of the self-help component.[1] The importance of this finding depends upon the extent of the cost-savings which can be achieved through self-help labor.

Rehabilitation Costs and the Contribution of Self-Help

The rehabilitation audit instrument provides data on the aggregate expenditures for contracted repairs, costs of materials purchased directly by the homesteader, and hours of self-help labor applied to the repair work. The self-help materials cost and labor hours are additionally broken down into individual self-help tasks.

The audit instruments also provide a mechanism for valuing

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[1] Evidence collected during visits to each of the local programs suggests that local officials have generally been cautious in the extent to which they have permitted self-help work and careful in the way in which they have monitored the self-help work which has been undertaken. For a further discussion of this, see Evaluation of the Urban Homesteading Demonstration Program; First Annual Report (U.S. Department of Housing and Urban Development, October 1977, pp. 33-35).

the contribution of self-help labor. For each task completed by the homesteader, an estimate is developed for materials and labor hours which would be required if the task had been performed by a licensed contractor. These estimates are then converted into dollar costs using regionally adjusted unit prices for labor and materials, and applying contractors' overhead, contingency and profit charges. The result is an estimate of what each self-help task would have cost if it had been performed by a contractor.

Homesteaders' actual expenses for contracted repairs ranged from zero to $17,085 with a mean value of $4,200. Homesteaders materials purchased averaged $1,448 with a maximum value of $15,000. Estimates of the savings in contractor costs which resulted from self-help efforts are presented in Table II.1-1 These include the estimated reductions in contractor charges attributable to self-help labor as well as savings in materials costs achieved by the homesteaders. Savings of both kinds are shown both in the aggregate and by each of 12 major task groups. In addition to cash payments, homesteaders, their families and friends, provided an estimated 317 hours of labor per property.[2]

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[2] This estimate of 317 hours of self-help labor per property differs for the estimate of 470 hours presented in the First Annual Report of the Urban Homesteading Demonstration. The explanation of this difference is to be found in the different data sources used. The 470 hour figure was the average of homesteaders' responses when questioned on their estimate of the aggregate number of hours worked on the property. The 317 hour figure is based on adjusted homesteaders' estimates of the number of hours spent on each task summed across all tasks. These data were adjusted in two ways. In the first place, estimates which were significantly below the amount of time which an experienced tradesman would take to do the work were eliminated. Secondly, missing observations, including the eliminated information, were replaced with estimates based on job size and the observed average productivity of self-help labor in each trade (expressed as contractor labor cost saved/self-help hour). This procedure does not affect the estimate of the aggregate hours spent. Because this estimate (317 hours on average per property) is based on hours per task, it is probably more reliable than the gross estimate (470 hours on average per property).

Table II.1-1

SELF-HELP SAVINGS IN THE REHABILITATION PROCESS

TASK GROUPS	Total Self-Help Hours	Mean Self-Help Savings/ Hour	Total Self-Help Labor Savings	Total Self-Help Materials Savings	Total Savings Labor & Materials
Demolition	111	$3.46	$ 384	$ 2	$ 386
Site Work	17	5.12	87	32	119
Concrete	1	1.54	2	0	2
Masonry	2	5.63	11	3	14
Carpentry	23	4.74	109	71	180
Thermal/Moisture Protection	5	3.99	20	11	31
Doors and Windows	20	5.50	110	52	162
Finishes	116	4.00	464	21	485
Specialties	1	3.38	3	14	17
Mechanical	18	4.35	78	26	104
Electrical	4	6.21	25	-7	18
ALL GROUPS	317	$4.12	$1,306	$225	$1,531

Self-help rehabilitation efforts resulted in an average saving of $1,531 per property, of which $1,306 (85%) was attributable to avoidance of contractor labor costs and $225 (15%) to savings in the cost of materials.[3] The average cost savings per homesteader hour, measured by the achieved reduction in contractor labor charges was $4.12. Across trades, the hourly savings exhibit a high degree of stability. Eight of the twelve tasks show average

[3] These savings correspond to the reduction in contracted costs achieved through self-help activity by homesteaders. They do not attempt to adjust these estimates for the psychic or opportunity cost of the homesteader's work. In a sense, therefore, the estimates presented correspond to the "sweat-equity" component of the rehabilitation.

hourly savings in the range $3.46-$5.50. The four tasks with average hourly savings outside this range between them account for only eight of the 317 average hours worked on a homestead property. The two trades with the highest average hourly savings are masonry ($5.63) and electrical ($6.21), both trades with high contract labor charges and significant skill requirements. This indicates that the higher labor costs in those trades are not fully offset by lower homesteader productivity in tasks requiring more skill.

The overall contribution of self-help work to the rehabilitation of urban homesteads on these 116 properties amounts to approximately 21% of the total cost of the work. This is calculated as the ratio of the total dollar savings achieved through self-help activity to the total rehabilitation cost, <u>if it had been fully contracted out</u>. Even if all the costs of contracted work and material were debt financed, which they were not, this constitutes a significant equity investment in the urban homestead properties.

II.2 THE HOUSING COSTS OF URBAN HOMESTEADERS

The impact of local urban homesteading efforts is most directly felt by those selected to become urban homesteaders. These families commit to leave their previous homes and occupy properties conveyed to them by the local urban homesteading program. In return, they accept responsibility for the necessary repairs to the property and agree to occupy their new home for a minimum of three years and in some instances longer. It is of some interest to know how this change affects the financial circumstances of the homestead households. In this Section, the data collected from 241 urban homesteaders who were occupying their properties on November 1, 1976, are used to examine the financial impact of the urban homesteading program on urban homestead households. Because these homesteaders are located in only 17 of the 23 Demonstration Cities and because within these cities, they are the earliest homesteaders to occupy their properties, they cannot be assumed necessarily to be representative of the larger population of homesteaders who have occupied their properties subsequently. Typically, these rehabilitation costs are higher than those experienced in the 116 properties which were inspected and reported on in the last section.

In estimating the financial impact of urban homesteading, it is necessary to examine first the front-end costs associated with the rehabilitation of the property. Secondly, we will describe the extent to which these front-end costs have been met through borrowing or savings. Thirdly, we will review the terms and conditions under which urban homesteaders have obtained the requisite financing. Fourthly, the average monthly cash expenses of urban homesteaders will be presented and compared both to their household income and to their prior housing costs, generally rental costs. Finally, homesteaders' estimates of the after-repair market value of their properties will be used to develop preliminary estimates of the net benefits which accrue to urban homestead families as a result of this program.

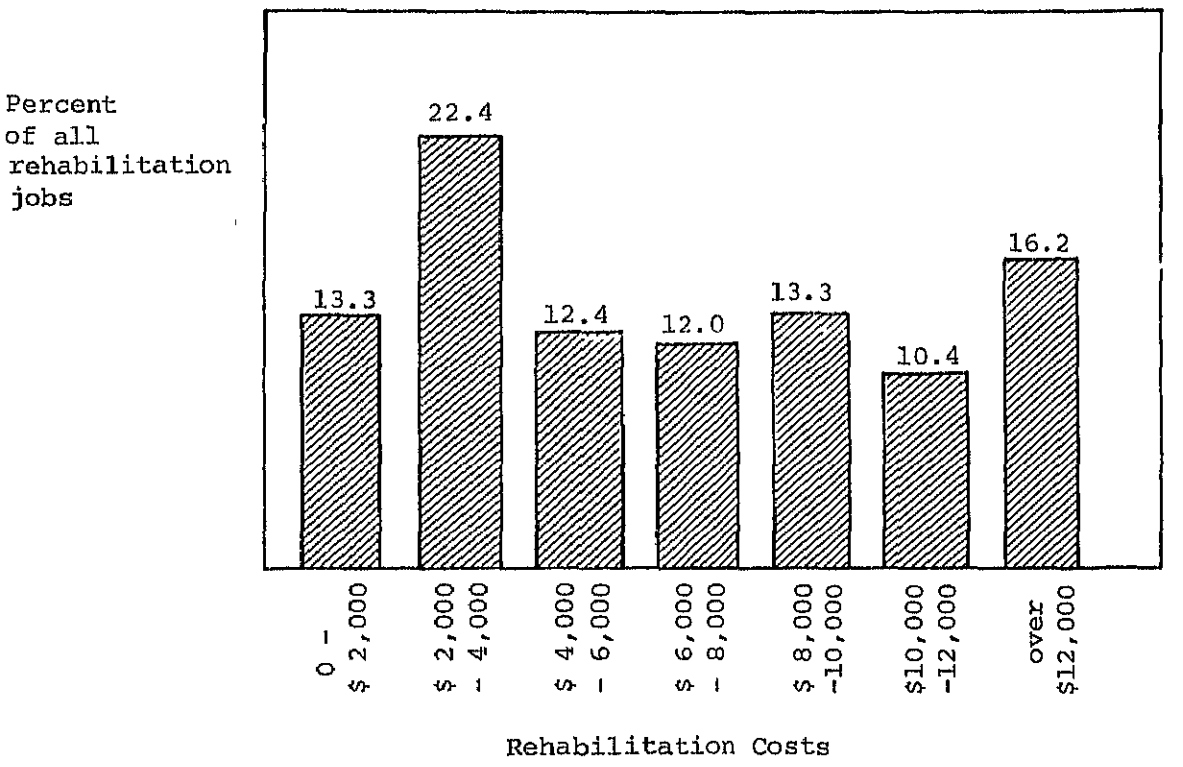
Rehabilitation Costs and Sources of Finance

For the first 241 urban homesteaders, the estimated costs of rehabilitation averaged $7,345 per property. Costs were distributed rather uniformly over the seven cost categories presented in Figure II.2-1. There is some evidence that rehabilitation costs increase modestly with the homesteader's income. Families with income below $6,000/year had average rehabilitation costs of $6,464 while families with income over $20,000 had average rehabilitation costs of $8,682. There is no clear systematic progression of rehabilitation costs with income in successive income groups between $6,000 and $20,000, however. These estimates of rehabilitation costs, drawn from a different group of homesteaders than those described in Section II.1, include the cash costs of rehabilitation but do not impute

Figure II.2-1

DISTRIBUTION OF REHABILITATION COSTS PER PROPERTY

(n=241)



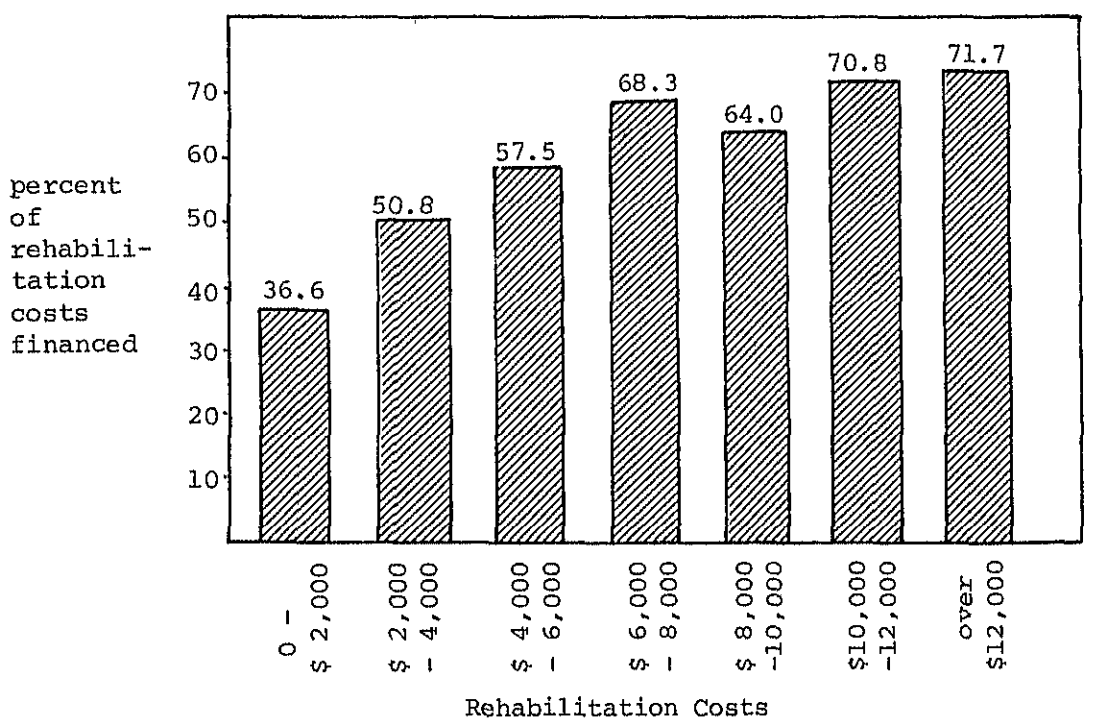
value to homesteader labor inputs.

There is a systematic relationship between the average cost of rehabilitation and the extent to which the homesteader has relied on borrowing to finance rehabilitation costs. In the aggregate, 64.8 percent of all rehabilitation costs were financed through borrowing. This percentage varied from 36.6 percent for jobs below $2,000 to 71.7 percent for jobs costing more than $12,000. It is summaried for all rehabilitation cost groups in Figure II.2-2.

Figure II.2-2

PERCENT OF REHABILITATION COSTS FINANCED

(n = 241)



A fairly high percentage of homestead households in this sample relied exclusively on their own savings to meet the costs of rehabilitation. Of the 241 homesteaders, 86 or 36 percent did not borrow. For the remaining 64 percent who did borrow, the average loan amount was $7,401, the average interest rate was six percent, and the average term of the loan was 14 years. The variation of the loan arrangements with the amount of rehabilitation costs is presented in Table II.2-1.

Monthly Housing Costs of Homesteaders

Debt service is only one element of the monthly housing costs which homesteaders undertake after the rehabilitation is complete. In addition they are usually, but not always responsible for local property taxes and they must pay for utilities and property insurance. The estimates of monthly housing costs which are presented in this section are estimates of the monthly cash expense. They therefore include amortization of indebtedness and they are not adjusted for the tax benefits of mortgage interest and property tax deductions.[1] Also excluded from these calculations is property value appreciation/depreciation, foregone interest on their cash equity in the property and any investments made in the property beyond the initial repairs.

The average housing cost of the 241 homesteaders in the sample is estimated to be $148 per month; this represents 14.8 percent of the average monthly income of the urban homestead households (Table II.2-2).

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[1] The value of those deductions is not likely to be very significant. Based on the amount of debt service and tax payments made by homesteaders (around $70/month) most would probably continue to take the standard deduction; given homesteader incomes, the value of these deductions would not be large even if a homesteader elected to itemize.

Table II.2-1

VARIATION OF LOAN ARRANGEMENTS WITH REHABILITATION COSTS

REHABILITATION COSTS	SAMPLE SIZE	312 LOANS				NON-312 LOANS[1]				ALL LOANS			
		NUMBER	AVERAGE LOAN AMOUNT	AVERAGE[2] INTEREST	AVERAGE[2] TERM (YEARS)	NUMBER	AVERAGE LOAN AMOUNT	AVERAGE[2] INTEREST	AVERAGE[2] TERM (YEARS)	NUMBER	AVERAGE LOAN AMOUNT	AVERAGE[2] INTEREST	AVERAGE[2] TERM (YEARS)
$0 - 2,000	32	3	1,916	3.0%	3.8	7	803	8.6%	1.8	10	1,137	5.8%	2.9
2,000 - 4,000	54	8	2,683	3.0%	7.3	23	2,402	10.0%	6.9	31	2,475	8.0%	7.1
4,000 - 6,000	30	5	2,432	3.0%	6.7	15	5,277	7.4%	11.0	20	4,566	6.9%	10.5
6,000 - 8,000	29	5	8,620	3.0%	10.7	16	6,200	8.2%	7.1	21	6,690	6.7%	8.2
8,000 - 10,000	32	8	8,381	3.0%	16.6	13	8,989	8.3%	12.3	21	8,758	6.6%	13.9
10,000 - 12,000	25	16	12,000	3.0%	18.0	15	8,354	9.1%	10.1	21	9,396	6.9%	13.0
over 12,000	39	14	16,050	3.0%	19.5	17	13,022	6.5%	17.3	31	14,389	4.8%	13.4
TOTALS	241	49	9,070	3.0%	16.9	106	6,630	7.9%	12.1	155	7,401	6.0%	13.9

[1]"Non-312 Loans" includes loans from both private lending institutions and loans from city or county rehabilitation loan programs, most of which include some level of subsidy.

[2]"Average Interest" and "average term" is computed by weighting the interest rate and term of each loan by the amount of the loan.

Table II.2-2

BREAKDOWN OF HOMESTEADERS' MONTHLY HOUSING COSTS

Debt service, including foregone interest on equity	$ 56.67	(38.2)
Utilities	71.49	(48.2)
Taxes	13.61	(9.2)
Insurance	6.56	(4.4)
TOTAL	$148.33	(100.0%)

Preliminary Estimates of Homesteader Benefits

Urban homesteaders receive significant benefits in terms of reductions in their monthly cash expenses for housing. The extent of these benefits can be assessed by comparing their current monthly housing costs with their housing costs in their previous residences. The average monthly housing cost for the households before they became homesteaders was $211, which was predominantly spent on rental payments. The immediate cash benefit is therefore $63/month for homesteaders.

The difference between current and prior housing costs do not provide a complete estimate of the benefits of urban homesteading if there is also a change in housing quality. One surrogate for housing quality is the market value of the property after repairs have been completed. This can be compared with the cost of rehabilitation, which for homesteaders is the same as the purchase price. The problem with this comparison is that we do not, as yet, have any market data on the value of repaired homestead properties. An imperfect substitute for this is the homesteader's own estimate of the market value of his property when all the repairs are complete.

The two major components of homesteader benefits are, therefore:

- Reduction in Housing Costs: Difference between housing costs incurred as a homesteader and housing costs incurred prior to becoming a homesteader.
- Increases in the Value of Housing Services Received: Differences between monthly housing costs which would have been incurred if the repaired households had been acquired at market value and the housing costs incurred in the homesteader's prior housing.

The first component, the reduction in housing costs, has already been determined. The average monthly cash outlays of homesteaders were estimated to be $148; their average monthly housing costs prior to becoming homesteaders was reported to be $211. The reduction in their housing costs is, therefore, $63 per month.

The second component of benefits is slightly more complex. We wish to calculate the monthly value of housing services provided by the repaired homestead property. This is done by calculating the costs, including utilities, insurance, and property taxes which would be incurred if the repaired property was acquired at market value and conventionally financed. These costs are estimated to be $248 per month.[2]

The benefits to homesteaders can thus be broken down into

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[2]The average market value of the repaired homestead properties is based on the average of homesteaders' estimates ($21,413). Debt service was calculated assuming an 80 percent mortgage repayable in 25 years but no interest was imputed on the 20 percent equity investment, to insure comparability with the treatment of homesteader costs. Appreciation in the value of the property is also excluded. Expenses for utilities are assumed to be the same as those incurred by homesteaders. Average property taxes, on the other hand, are estimated to be the same as the average of other neighborhood residents, which is higher than the average property taxes paid by homesteaders who receive a variety of tax exemptions and abatements. The components of the monthly value of housing services provided by the repaired homesteads are:

Debt service	$137.95
Utilities/Insurance	78.05
Property taxes	32.00
	$248.00

these two major components:

(1)	Reduction in Monthly Housing Costs: (Prior housing costs less costs incurred as a homesteader: $211 minus $148)	$ 63
(2)	Increase in Value of Monthly Housing Services: (Housing costs based on market value of repaired homestead less prior housing costs: $248 minus $211)	37
	Total monthly benefits	$100

Just as it is possible to decompose homesteader benefits into their constituent elements, it is also possible to identify the individual sources from which these benefits flow. These are:

- Reduction in debt service charges attributable to the writedown of the value of the property (difference between the monthly debt service cost of conventionally financed repaired property at market value and monthly debt service charges on the rehabilitation costs, assumed to be conventionally financed).
- Difference in debt service rates (differences between the per dollar debt service costs of conventionally financed property and the per dollar debt service costs of homesteads, multiplied by the average cost of homestead rehabilitation).
- Subsidization of property taxes (difference between average property taxes paid by residents and average property taxes paid by homesteaders).

These three sources of benefit together account for the $100 of estimated monthly benefits which homesteaders incur. The reduction in debt service charges attributable to the writedown on the value of the homestead property is estimated to account for $91 of the $100 total monthly benefits.[3] The difference in the debt service rates reduces this amount by $9

[3] The average rehabilitation cost of $7,345 would require $47.32 per month of debt service if it were financed in the same way as a conventional mortgage, excluding interest on the 20 percent equity investment. The difference between this amount and the $137.95 cost of financing the market value of the same property is approximately $91. This is the magnitude of the monthly debt service costs avoided by the $14,068 write-down of the property's value.

per month;[4] the higher debt service costs per dollar of the principal result, not from higher interest charges (homesteaders actually pay lower interest rates than conventional mortgages), but from the more rapid repayment schedules which homesteaders undertake. Lastly, it is estimated that homesteaders enjoy an average $18/month property tax subsidy which accounts for the balance of the $100 per month of homesteader benefits. The two-way breakdown of the homesteader benefits described above can be summarized in a "Sources and Users" chart (Table II.2-6).

Table II.2-6

SOURCES AND USES OF NET HOMESTEADER MONTHLY BENEFIT

Sources:		Uses	
Reduction of Debt Service Charges Attributable to Write-Down	$ 91	Increase in Value of Housing Services	$37
Difference in Cash Debt Service Rates . .	(9)	Reduction in Cost of Housing Services.	$63
Subsidization of Property Taxes	18		
	$100		$100

The estimates of benefits presented here must be regarded as highly preliminary for several reasons. In the first place, they are based on a subsample of homesteaders drawn from only 17 of the 23 urban homestead programs. In the second place, they depend critically on the accuracy of the homesteader's own estimate of the after-repair market value of the property--and may, therefore, be somewhat optimistic. Thirdly, they focus strictly

[4]The debt service cost difference can be calculated by comparing the monthly debt service costs of homesteaders of $56.67 (Table II.2-2) with the amount of conventional monthly debt service costs on the average rehabilitation cost amount of $7,345; this amount is $47.32, so that the result is a $9 increase in the monthly debt service costs assumed by homesteaders.

on out-of-pocket costs and do not include changes in the value of the property, income tax benefits or amortization of indebtedness. Fourthly, they assume that the homesteaders valuation of the increased value of housing services received corresponds to the market valuation, which is overly optimistic. These assumptions can be tested and refined when more information is available on the market value of these properties, the extent of property values appreciation for homesteads and the decisions of homesteaders to sell or remain in their homes once the residency requirements have been fulfilled.

Section III

URBAN HOMESTEADING NEIGHBORHOODS

III. URBAN HOMESTEADING NEIGHBORHOODS

In implementing Section 810 of the Housing and Community Development Act of 1974, HUD designed a demonstration which would seek to show not only how HUD-owned properties could be effectively used in local urban homesteading programs, but also how the urban homesteading concept could be used "in a range of carefully chosen declining neighborhoods that are not severely blighted and have some potential of regaining their viability."[1] In addition to implementing urban homesteading programs in these neighborhoods, the Demonstration Cities were also required to provide "a coordinated approach toward neighborhood improvement which includes . . . the upgrading of community services and facilities."

The design of the Demonstration Program implies clearly the existence of dual objectives. By providing vacant one-four family residential properties for use in local urban homesteading programs, HUD was attempting to achieve the beneficial return of vacant buildings to the occupied housing stock through the mechanism of urban homesteading. At the same time, the requirement that local urban homesteading programs be concentrated within locally designated target areas and that those areas also receive upgraded community development services, implied a wish to use homesteading as an instrument of neighborhood stabilization in areas which exhibited signs of early decline.

Subject to the general admonition that the areas be "not severely blighted," local governments were free to select neighborhoods which contained HUD-owned properties and which they judged to be suitable for urban homesteading. By November 1, 1976, properties had been selected by 22 of the 23 Demonstration Cities.[2] These properties were located in exactly 40 neighborhoods. Subsequently, properties were selected in a few additional neighborhoods which had been approved for urban homesteading and

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[1] Invitation to Participate in an Urban Homesteading Demonstration, U.S. Department of Housing and Urban Development, July 1975.

[2] Only Boston had not selected any properties by November 1, 1976.

further neighborhoods were added, or existing ones enlarged, to accomodate the expansion of local urban homesteading efforts. In this report, attention is directed towards the 40 neighborhoods which were approved originally and in which urban homesteading was active in the first year of the program's operations.

Each of the 40 neighborhoods had been previously designated as a Community Development area or as part of a Community Development area and five of the neighborhoods coincide with a Neighborhood Housing Services program target area. As a result, a variety of neighborhood preservation activities were already programmed for these areas, independently of the urban homesteading program. In ten cities, code enforcement programs were underway; five cities were undertaking direct rehabilitation of residential properties and 17 cities were operating loan and grant programs for housing rehabilitation in those neighborhoods. The existence of neighborhood preservation activities in the proposed urban homesteading areas was one of the primary criteria applied by HUD in the selection of cities to participate in the urban homesteading demonstration.

Viewed from the perspective of neighborhood preservation objectives, urban homesteading is one addition to a local government's armory of weapons to combat neighborhood decline. Because the presence of boarded-up unoccupied properties is less a cause than a symptom of neighborhood decline, homesteading efforts cannot be expected, by themselves, to halt decline and revitalize neighborhoods. In any event, urban homestead properties typically account for less than one percent of the neighborhood housing stock. On the other hand, without the mechanism provided by urban homesteading, local governments may be powerless to remove the blight which the boarded-up properties create. By repairing these properties and securing their occupancy through the homesteading mechanism, local governments can remove this blight and, through its removal, guarantee possible benefits to its immediate neighbors, which will assist in the preservation of the housing stock beyond the scattered homestead sites.

In attempting to assess the urban homesteading program, the evaluation must focus not only on the housing benefits and costs which result from the conveyance, repair and occupancy of the Section 810 properties, but also on the broader issue of the neighborhood impact of the program. From this perspective, the urban homesteading neighborhoods provide a test-bed for homesteading as one element in a coordinated strategy of neighborhood preservation. The measurement of neighborhood impact requires at a minimum, that comprehensive statistical data on the conditions of these neighborhoods be collected and maintained during the homestead residency period. Before examining the statistical evidence on the condition of the urban homesteading neighborhoods prior to the outset of the Demonstration, it is useful to review the factors which affect the evolution of urban neighborhoods over time. These factors have been addressed in a growing body of recent economic literature.

The key element in the study of urban neighborhoods is the recognition of geographic compartmentalization within the urban housing market. The effect of geographic compartmentalization is the existence of a set of submarkets. In different submarkets similar housing units frequently command different market prices, sharp differences in the economic circumstances and racial characteristics of residents often exist, and different rates of investment and maintenance prevail both for the private housing stock and the public infrastructure. Recognition of the existence of these submarkets, or neighborhoods, has led to a series of housing market models, mostly developed through the application of econometric methods. In these models considerable attention has been devoted to the examination of housing prices for units with varying physical characteristics and in differing neighborhoods. "Hedonic" price models relating housing prices to dwelling unit and neighborhood characteristics have been estimated using large micro data sets from Census, property tax records, and other

household surveys.[5]

The specification and estimation of households' preferences for particular types of units and neighborhoods has also been analyzed in considerable detail, typically using micro data from household surveys. These studies have documented relationships between income, household size, position in the life cycle, and place of work and households' choices with respect to type and

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[5]Examples of the application of hedonic price models include:

Ronald G. Ridker and John A. Henning, "The Determinants of Residential Property Values with Special Reference to Air Pollution," Review of Economics and Statistics, May 1967, pp. 246-256.

Robert J. Anderson and Thomas D. Crocker, "Air Pollution and Residential Property Values," Urban Studies, October 1971, pp. 171-180.

Wallace E. Oates, "The Effects of Property Taxes and Local Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis," Journal of Political Economy, November 1969, pp. 957-971.

John Kain and John Quigley, "Measuring the Value of Housing Quality," Journal of the American Statistical Association, June 1970, pp. 532-548.

George E. Peterson, "The Effect of Zoning Regulations on Suburban Property Values," Urban Institute Working Paper, pp. 1207-1224, March 1973.

Sherwin Rosen, "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition," Journal of Political Economy, January 1974, pp. 34-55.

D. M. Grether and Peter Mieszkowski, "The Determinants of Real Estate Values," Journal of Urban Economics, April 1976, pp. 146-166.

Ann B. Schnare and Raymond J. Struyk, "Segmentation and Urban Housing Market," Journal of Urban Economics, April 1976, pp. 146-166.

A. Mitchell Polinsky, "The Demand for Housing: A Study in Specification and Grouping," Econometrica, March 1977, pp. 447-461.

A. Mitchell Polinsky and David T. Ellwood, "An Empirical Reconciliation of Micro and Grouped Estimates of the Demand for Housing," Review of Economics and Statistics, forthcoming.

and location of housing.[6] Larger units, newer units, larger lots, homeownership, and higher income neighborhoods are all superior goods, with income elasticities for certain attributes exceeding unity.

An additional dimension which creates compartmentalization in the housing market is race. The evidence that racial discrimination limits the choices available to black households is by now quite persuasive.[7] Entry barriers implemented through informal procedures, including practices by real estate brokers and lenders, serve to restrict the supply of housing to black households and increase its price.[8] Black households consume less housing than

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[6]Studies of the demand for particular attributes of housing include:

Mahlon Straszheim, An Econometric Analysis of the Urban Housing Market, National Bureau of Economic Research, 1975.

Thomas King, "The Demand for Housing, A Lancasterian Approach," Southern Economic Journal, October 1976.

William Wheaton, "A Bid Rent Approach to Housing Demand," Journal of Urban Economics, April 1977, pp. 200-217.

[7]Many studies of hedonic prices have documented that black households pay more than whites for comparable housing.

T. King and P. Mieszkowski, "Discrimination, Housing Segregation and the Price of Housing," Journal of Political Economy, 1973, pp. 590-606.

Charles Daniels, "The Influence of Racial Segration on Housing Prices," Journal of Urban Economics, 1975, pp. 105-222.

John Kain and John Quigley, Discrimination and a Heterogeneous Housing Stock, New York, 1975.

Mahlon Straszheim, An Econometric Analysis of the Urban Housing Market, Columbia University Press, 1975.

Ann Schnare, "Racial and Ethnic Price Differentials in an Urban Housing Market," Urban Studies, 1976, pp. 107-120.

[8]The existence of discriminatory mechanisms, their nature and effects, has been reviewed in Race and Poverty: The Economics of Discrimination, John F. Kain, Ed., Englewood Cliffs, New Jersey, Prentice Hall, Inc., 1969.

John Yinger, "An Analysis of Discrimination by Real Estate Brokers," Mimeo, 1975.

Paul Courant and John Yinger, "On Models of Racial Prejudice and Urban Residential Structure," Journal of Urban Economics, Vol. 4, No. 3, July 1977, pp. 272-291.

white households of comparable income because of these supply and price effects.[9] White households also exhibit distinct preferences for neighborhoods which blacks are a small minority or absent entirely. The racial composition of neighborhoods is itself an important defining characteristic of neighborhoods for white households which must be considered in demand models of white households' choices.[10]

Documentation of the existence of neighborhood submarkets does not, by itself, explain the process of neighborhood change; indeed, current understanding of this process remains fairly rudimentary. Analysis of the factors affecting change in individual neighborhoods begins with the conventional demand/supply dichotomy. In the short run, because of the high costs of altering the existing housing stock, the supply of housing in any neighborhood can be regarded as fixed; in the longer run, changes in the housing stock can be examined as responses to shifts in the prices or rentals of housing units which have taken place in prior periods. The analysis of neighborhood change can then focus first on the shifts in the demand for neighborhood housing, which are responsible for these movements in housing prices and rentals.

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[9] An estimate of the effects of income, price discrimination and supply rationing on black households' housing consumption is in Mahlon Straszheim, "Housing Market Discrimination and Black Housing Consumption," Quarterly Journal of Economics, February 1974, pp. 19-43. Other analyses of these differences in housing by race appear Kain and Quigley, Discrimination and a Heterogeneous Housing Stock, 1975; and Kain and Quigley, "Housing Market Discrimination, Homeownership and Savings Behavior," American Economic Review, June 1972, pp. 263-277; Howard Birnbaum and Rafael Weston, "Homeownership and the Wealth Position of Black and White Households," Review of Income and Wealth, March 1974, pp. 103-119.

[10] "White flight" has been analyzed by Tom Schelling, "Neighborhood Tipping," Pascal, Ed., Racial Discrimination in Economic Life, 1972, Heath Lexington. An empirical study is Charles Clotfelter, "Spatial Rearrangement and the Tiebout Hypothesis: The Case of School Desegregation," Southern Economic Journal, October 1975, pp. 263-271; Charles Clotfelter, "Urban School Desegregation and Declines in White Enrollment: A Reexamination," Journal of Urban Economics, forthcoming.

The demand for housing units in any given neighborhood will depend on decisions by current residents to remain or move and on decisions by other households contemplating entry into the neighborhood. These decisions will, in turn, depend upon the relative desirability of the neighborhood vis-a-vis all other neighborhoods. The factors determining the relative desirability of a neighborhood include the level of public services, environmental quality broadly defined and, depending on the individual household, the characteristics of the other residents of the neighborhood. The more desirable the neighborhood in these respects, the higher will be the incomes of those households already living, or considering living, in the area, since higher income families will typically be able to afford to pay more to live in more desirable neighborhoods.

Changes in the relative desirability of different urban neighborhoods, or submarkets, are therefore generally reflected in changes in the relative prices of comparable housing units in different neighborhoods. By this standard, the urban homesteading neighborhoods as a group did poorly in the years before the Urban Homesteading Demonstration. The average price of single-family properties in the urban homesteading neighborhoods increased at less than half the rate of FHA insured properties in the same SMSA's. This finding, discussed in more detail below, indicates that these areas were, from 1970-77, becoming relatively less desirable places to live.

As properties in the urban homesteading areas became relatively less expensive between 1970 and 1977, the household incomes of the resident population were increasing at less than half of the national rate, and were in fact declining in real terms. This is the pattern of change which is to be expected when neighborhoods are declining in terms of the market valuation of their characteristics, and it is supported by comparisons of household incomes between 1970 and 1977 which show a continued erosion in the real income of residents of these neighborhoods compared to incomes of other households; these results are

discussed in Section III.1 below.

Shifts in demand may be the leading indicator of neighborhood decline, but it is the supply response which is typically the source of most public concern. As neighborhood property values decline relative to the rest of the metropolitan area and as the economic circumstances of neighborhood residents decline with the passage of time, a progressive and concomitant deterioration in the condition of the housing stock is also frequently observed. Expectations of future value declines deter owner-occupants from making major improvements to their properties and routine maintenance and repairs are frequently deferred; owners of rental properties achieve positive cash flows by reducing maintenance expenditures; in the most extreme cases, properties are simply abandoned.

The theory of investment in urban housing markets is an application of the standard economic theory of investment. Investment decisions are based on expectations by investors of rates of return in all markets. The expected rate of return in a given neighborhood will be compared to expected rates of return on investments in other areas and in other types of housing and in other investments in general. Just as the demand for occupancy by households of different income levels and other socio-economic characteristics reflects opportunities to locate in other submarkets, investment levels in a given neighborhood will reflect perceived investment opportunities in other markets.

Several distinct aspects of such a model are important in its application to urban housing markets. First, the urban housing stock is very durable, and not easily altered. As a result, expectations about the future are critical to the investment decision. Secondly, several neighborhood conditions (housing quality, prices, and other attributes of the neighborhood) affect the desirability of any given unit to households and its price, and hence influence expectations about the rate of return on investment in any given unit. Third, the biggest source of differences in the rate of return across neighborhoods is in revenues rather

than costs. Rents or market prices for single family housing generally vary far more widely among neighborhoods than do differences in the cost of providing housing services. To explain differences in investment levels across neighborhoods generally involves explaining differences in demand since supply price differences are small.

The analysis of housing investment behavior is further complicated by the presence of externalities. Decisions by some households to invest may affect rents and property values in the rest of a neighborhood and hence rates of return on other properties. The source of the externality problem for investors is the fact that households' valuations of properties, as reflected in rents, are not generally independent of the condition and occupancy of nearby properties. To the extent that one's neighbors are important in the valuation of a neighborhood, a classic externality problem exists. Decisions to invest or not to invest in a single property, or the change in occupancy of a unit from a household of a given socio-economic type to another, may significantly affect the desirability of occupying neighboring properties and hence property values.

The process of neighborhood change in which deterioration is occurring is the one in which externalities become most important. As noted, a fall in expected rates of return will encourage investors to exit, by under-maintenance. Resident ownership declines and leases are less likely to be required. As under maintenance occurs and units deteriorate, real prices will likely fall relative to other housing markets, neighborhood incomes decline further, and negative externalities accelerate the disinvestment process.[11] These negative externalities include the effects of less desirable tenants, less safe conditions on the streets, and the presence of abandoned properties.

Empirical analysis of housing investment behavior is quite

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[11]Sternlieb and associates at Rutgers have conducted a number of studies describing transition phenomena in low income neighborhoods. George Sternlieb, The Tenement Landlord, Rutgers University Press, 1966.

linited. Mendelsohn[12] arrived at estimates of the income elasticity of investment expenditures of around 0.6. Ozanne and Struyk[13] derived estimates of unobserved quantities of housing from data on Boston housing units, both rental and owner-occupied. Examination of the supply response to housing allowances has also been carried out by Rydall[14] and by Ingram, et al.[15] It is evidently too early to determine trends in the level of home maintenance and improvement activities in the urban homesteading neighborhoods, but the preliminary evidence suggests that investment expenditures in 1976 were comparable to national average investment levels for central city owner-occupants.

The Urban Homesteading program with its explicit neighborhood focus and its requirement that urban homesteading be coordinated with a range of other neighborhood preservation activities was clearly intended to arrest the progressive decline in the relative desirability of the target neighborhoods which took place between 1970 and 1977 and to stimulate private investment in the neighborhood housing stock. The strategy of neighborhood preservation focusses both on the improvement of the physical conditions in these neighborhoods and on raising resident expectations of the future conditions of these areas. Efforts to improve the physical conditions include the removal of existing blight, as for example is achieved by homesteading vacant properties, by encouraging home repairs and improvements through rehabilitation

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[12] Robert S. Mendelsohn, "Empirical Evidence on Home Improvements," Journal of Urban Economics, October 1977, Vol. 4, No. 4, pp. 459-468.

[13] L. Ozanne and R. Struyk, Housing from the Existing Stock, Washington, D. C., The Urban Institute Paper 221-CO, 1976.

[14] C. Peter Rydell, "Measuring the Supply Response to Housing Allowances," Papers of the Regional Science Association, Vol. 37, 1976, pp. 31-54.

[15] G.K. Ingram, H.B. Leonard, and R. Schafer, "Simulation of the Market Effects of Housing Allowances." Vol. III: "Development of the Supply Sector of the NBER Model." Final Report prepared for the U.S. Department of Housing and Urban Development, 1976.

programs and through upgrading the physical infrastructure and municipal services. These effects are motivated by the hope that the attachment of existing residents to the neighborhoods will be strengthened and that the areas will become more attractive to other households considering relocation. The results of successful intervention would therefore include the stabilization of property values, increased attachment of existing residents to their dwelling units and the improved maintenance of the housing stock.

Three major topics are addressed in this part of the report:

- Change in the Urban Homesteading Neighborhoods during the seven years prior to the Demonstration program. Contrasts between data collected during the 1970 Census and data collected during the baseline survey of homestead neighborhood residents are used to examine change along several dimensions, including household income, racial composition of neighborhoods, tenure patterns, property values and mobility rates. This information sheds light on the process of "early decline" and provides a context for the interpretation of data to be collected during the Demonstration. (Section III.1)
- Housing Investment, Property Values and Housing Costs at the outset of the Demonstration (1977). Statistical descriptions of the key economic variables relating to the housing stock in 1977 are presented using the baseline survey data. These statistics are of interest for what they tell of the position of the urban homesteading neighborhoods relative to the SMSAs in which they are located and relative to national average values of the same variables; these data also provide a benchmark for subsequent longitudinal estimates of change in the urban homesteading neighborhoods. (Section III.2)
- Analysis and variation within the Urban Homesteading Neighborhoods. The urban homesteading neighborhoods exhibit evidence of quite sharp within-neighborhood differences when households, properties and streets close to urban homesteads are compared with households, properties and streets further away from urban homesteads. These contrasts are important for what they suggest about past changes in the areas and in the assessment of the impact of urban homesteading on surrounding properties and streets. (Section III.3)

At the end of this part of the report (Section III.4), previously reported findings are interpreted for what they suggest about past and future changes in the urban homesteading neighborhoods. Throughout the material which follows, cautions abound as to the limitations of an examination of neighborhood change based on one cross-section of data. In short, the findings reported here are of a preliminary nature; subsequent reports of the project, based on successive survey waves will be able to address the issues of neighborhood change in a more direct fashion.

III.1 THE URBAN HOMESTEADING NEIGHBORHOODS 1970-77

The Urban Homesteading Neighborhoods were selected subject to HUD's "early decline" criteria which referenced "carefully chosen declining neighborhoods that are not severely blighted and have some potential for regaining their viability."[1] In addition, local interest in undertaking urban homesteading programs in those neighborhoods insured that each neighborhood would have a significant number of FHA foreclosed one-four family houses. By November 1, 1976, properties had been selected for urban homesteading in exactly 40 designated neighborhoods distributed across 22 of the selected Urban Homesteading Demonstration Programs.

Summary statistical data on the urban homesteading neighborhoods as they were in the winter of 1976-77 has already been presented in Section III.1 above and is also reported in the First Annual Report of the Urban Homesteading Demonstration. These data will be contrasted with the data from subsequent survey waves to examine future changes in those neighborhoods during the course of the three-year minimum homestead residency period. In the meantime, the baseline data can be used to examine past change in the urban homestead neighborhoods in two ways. In the first place, the baseline data can be contrasted with data from the 1970 Census of Population to provide selected indicators of how these neighborhoods evolved during the seven years prior to the outset of the Demonstration. Secondly, analysis of the responses of residents who were interviewed during the baseline survey can be used to examine past patterns of price changes and mobility in the urban homesteading neighborhoods.

Past change in the urban homesteading neighborhoods is instructive in several ways. In the first place, the experience from 1970-77 provides information on the nature of the early decline which had taken place prior to the Demonstration Program.

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[1] "Invitation to Participate in an Urban Homesteading Demonstration," Office of Policy Development and Research, Department of Housing and Urban Development, July 1975.

Secondly, extrapolation of past trends can provide one benchmark with which to compare subsequent survey data. Thirdly, by examining the differences between neighborhoods during the 1970-77 period it will become clear that neighborhood decline is a variegated phenomenom, with no two neighborhoods being quite alike.

Aggregate Statistics of Change 1970-77

In view of the diversity of experience to which the urban homesteading neighborhoods were subject during the seven-year period, aggregating across all neighborhoods for purposes of analysis is a dubious exercise. However, because they were all selected on the basis of similar criteria and because they are all operating urban homesteading programs as one element in a co-ordinated approach toward neighborhood stabilization, the aggregate statistics provide a useful point of departure for the examination of change at the individual neighborhood level.

For the purposes of comparisons between 1970 and 1977, a number of key variables were abstracted from the 1970 Census of Population.[2] These include: Population, Household Income, Racial Composition and Tenure Mix. In Table III.1-1, the values of these variables are presented for 1970 using Census data and for 1977 using data from the baseline survey wave of the urban homesteading neighborhoods.

The aggregate population of the urban homesteading neighborhoods increased by just over six percent in the seven-year period. This increase was almost exactly accounted for by a corresponding increase in the mean number of persons per occupied dwelling unit from 3.2 to 3.4. The number of occupied dwelling units remained

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[2]The urban homesteading neighborhoods do not, in all cases, correspond to census tract boundaries. In cases where boundaries differ, census tract data were weighted by the percentage of the urban homesteading neighborhood contributed by each tract and then aggregated. This procedure will contribute modest errors to the 1970 data base.

Table III.1-1

COMPARISON OF 1970 AND 1977 DATA ON POPULATION, HOUSEHOLD INCOME, RACIAL COMPOSITION AND TENURE MIX (ALL NEIGHBORHOODS)

Variables	1970 Value	1977 Value
Population (Mean Household Size)	672,000 (3.2)	714,000 (3.4)
Mean Household Income	8,758	10,675
Racial Composition (% Black)	45%	65%
Tenure (% Homeowners)	54%	65%

constant over the period at approximately 210,000 across all 40 neighborhoods.

In 1970, the mean household income of residents of the urban homesteading target areas was $8,757, which was 88 percent of the mean household income of all Americans. By the end of 1976, the mean household income of residents of the urban homesteading areas had risen by 22 percent to $10,675 while the mean household income of all Americans had risen by 49 percent to $14,922.[3] Thus, by January 1977 the income of residents had fallen from 88 percent to 72 percent of the national average. Deflating the 1976 income statistics by the increase in the Consumer Price Index over the period reveals a 21 percent decline in the real income of the area residents during the seven-year period. This decline in the relative economic status of area residents appears to be one of the factors common to almost all the urban homesteading neighborhoods. Only four neighborhoods enjoyed increases in household income which exceeded the national average.

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[3]U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 109, January 1978. Household Survey Income and Selected Social and Economic Characteristics of Households, U.S. Government Printing Office, Washington, D. C., 1978.

Equally dramatic is the pattern of racial change in the urban homesteading neighborhoods. In the aggregate the percentage of black households increased from 45 percent to 65 percent of the total number of households in these areas. In only 13 of the 40 neighborhoods did the number of black families increase by less than five percent of the area population and in six of the neighborhoods the percentage of the population which is black increased by over 40 percent. The variation in the experience of racial change is marked. In Chicago-Austin, there was an almost complete exchange of population, with the neighborhood moving from two percent black in 1970 to 90 percent black in 1977. At the other extreme are those neighborhoods which have experienced no racial change or which have seen modest increases in the percentage of the population which is white.

Fifty-four percent of all housing units in the urban homesteading neighborhoods were owner-occupied in 1970. By 1977, this percentage had increased to 65 percent. This is a change which does not necessarily accord with the generally accepted view of the process of neighborhood decline in which stable neighborhoods experience conversion to rental units which are then inadequately maintained. Nevertheless, 25 of the 40 neighborhoods experienced increases in the percentage of owner-occupied units during the period, with those increases ranging as high as 34 percent in Milwaukee's Eastside. Among those 15 neighborhoods in which homeownership remained constant or declined, the reductions were much more modest; the largest reduction was 19 percent in South Bend's Riverside neighborhood.

Inter-Neighborhood Comparisons of Change 1970-77

To the extent that there are discernible patterns of neighborhood change during the period 1970-77, it should be possible to group neighborhoods which were alike in 1970 and which have changed in similar ways in the intervening years. In reviewing

the experience of individual neighborhoods during the period, it becomes clear that the range of experience does not lend itself to any simple classification system. Neighborhoods which were alike in 1970 have been subjected to exogenous forces of change which, because of geographic and market factors, are very different; neighborhoods which were alike in 1977 may have been dissimilar in 1970. As a result, classification of neighborhood change in terms of the initial and ending conditions leads to a set of distinguishable "models" which is large relative to the number of neighborhoods under scrutiny.

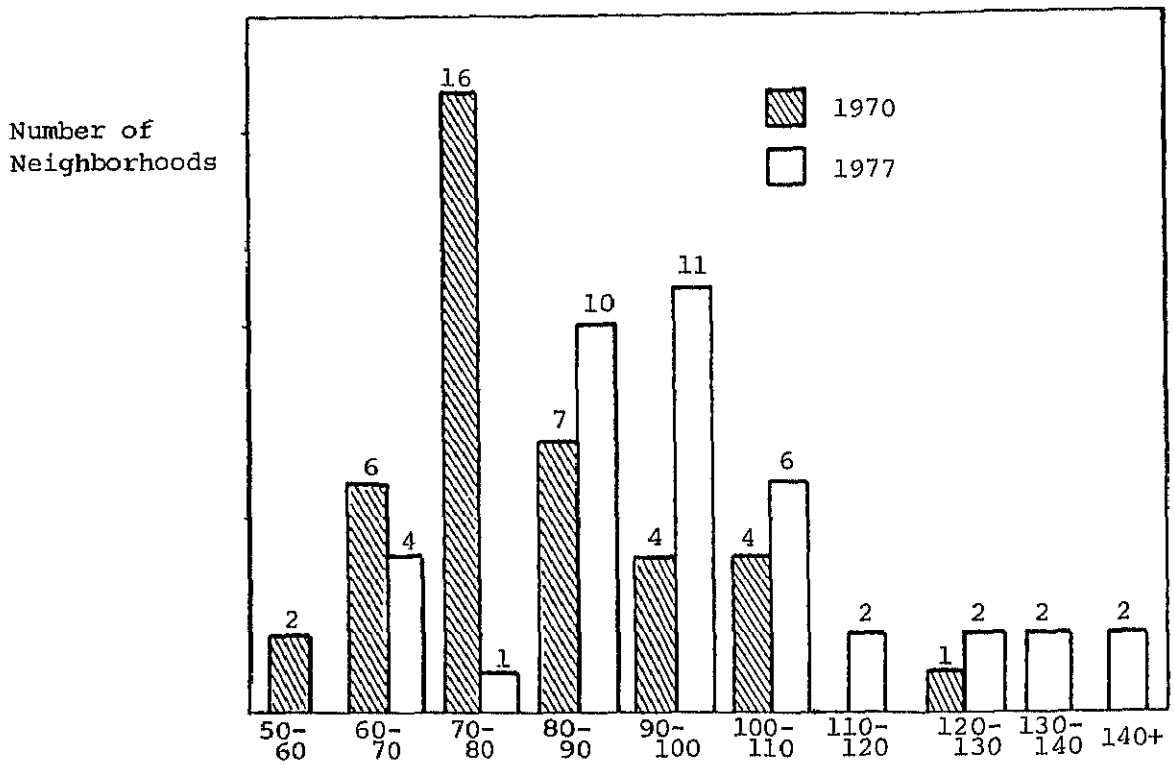
Before attempting to classify neighborhoods on the basis of the 1970-77 experience, it is useful to examine the inter-neighborhood variation in terms of income, race, tenure, housing price and mobility, each taken separately. It will become clear that these variables do not move together in any obvious way. This understanding is useful both intrinsically and as an aid to the interpretation of subsequent longitudinal data on the urban homesteading neighborhoods.

Income Distribution and Income Change in the Urban Homesteading Neighborhoods

In 1970, mean household income in the urban homesteading neighborhoods was 80 percent of the mean household income of the SMSA's in which the urban homesteading neighborhoods were to be located. By 1977, the average had increased to 98 percent of the 1970 SMSA mean income. The distribution of the mean income in the neighborhoods, as percentages of the 1970 SMSA mean income, is presented in Figure III.3-1 for both 1970 and 1977.

Figure III.1-1

FREQUENCY DISTRIBUTION OF NEIGHBORHOODS BY MEAN HOUSEHOLD INCOME AS PERCENTAGE OF 1970 SMSA MEDIAN: 1970 and 1977



The shift in the distribution of household income between 1970 and 1977 relative to the 1970 SMSA median income is apparent in Figure III.1-1. What is not apparent are the shifts in the relative positions of different neighborhoods during the period. In Figure III.1-2, neighborhoods are classified in terms of both their 1970 and 1977 positions relative to the SMSA mean.

On the main diagonal, from bottom left to top right, are those 12 neighborhoods which have income increases averaging around ten percent in current dollars. Above this diagonal are seven neighborhoods where income has increased by less than ten percent. In six of those seven neighborhoods, household income in current dollars actually declined over the period.

Figure III.1-2

CLASSIFICATION OF NEIGHBORHOODS IN TERMS OF 1970 AND 1977 MEAN HOUSEHOLD INCOME AS A PERCENTAGE OF SMSA MEAN HOUSEHLLD INCOME
(1970 Neighborhood and SMSA Income Data from 1970 Census; 1977 Neighborhood Income data from Household Interview Survey in Urban Homesteading Neighborhoods)

1970 Mean Household Income as Percentage of 1970 SMSA Mean Household Income	1977 Mean Household Income as Percentage of 1970 SMSA Mean Household Income: Less than 80%	80%-90%	90%-110%	More than 110%
More than 100%			Freeport Philadelphia-E. Mt. Airy	Gary-Horace Mann Jersey City-Greenville South Bend-Riverside Manor
80%-100%		Chicago-Roseland New York-New Brighton	Decatur-South Decatur Indianapolis-Forest Manor New York-Baisley Park Philadelphia-Wynnefield	Islip-Old Central Islip Kansas City-Blue Hills South Bend-Lasalle Park Tacoma-Tract 621 Wilmington-Price's Run
70%-80%	Atlanta-Oakland City Chicago-Austin Oakland-Elmhurst #4	Indianapolis-Brookside Oakland-Elmhurst #1 South Bend-Rum Village Tacoma-Tract 613	Baltimore-Park Heights Cincinnati-Madisonville Columbus-Near South Side Dallas-Trinity Lisbon Kansas City-49-63 Area Milwaukee-Northwest Side New York-South Ozone Park Rockford-Westside	
Less than 70%	Wilmington-Westside	Minneapolis-Northside Oakland-Fruitvale Oakland-Central East Oakland-Elmhurst #3 Tacoma-Tract 617	Milwaukee-Eastside Oakland-Elmhurst #2 Wilmington-Baynard Blvd.	

Below and to the right of the main diagonal are those neighborhoods whose income typically increased by more than ten percent during the seven-year period. Both this Figure and Figure III.1-1, which preceded, demonstrate one point of some interest. The application of screening criteria at the outset of the Demonstration might have been expected to cause a lower variance in the 1977 income of the selected neighborhoods, either in absolute terms or as a percentage of the SMSA mean income, than existed in those neighborhoods in 1970. This does not appear to be the case. Those neighborhoods which were above the median of all 40 neighborhoods in 1970 experienced percentage increases in income over the period which was as large an average as those neighborhoods which were below the median.

It is of interest to note that those neighborhoods in the highest and lowest percentiles of the 1970 mean distribution experienced more rapid income growth, or less rapid real income decline, than the neighborhoods in the 25-75 percent range of the distribution. This is illustrated in Table III.1-2.

Table III.1-2

MEAN 1970 AND 1977 NEIGHBORHOOD INCOME AS A PERCENTAGE OF SMSA MEDIAN INCOME BY QUARTILES OF THE INCOME DISTRIBUTION ACROSS NEIGHBORHOODS

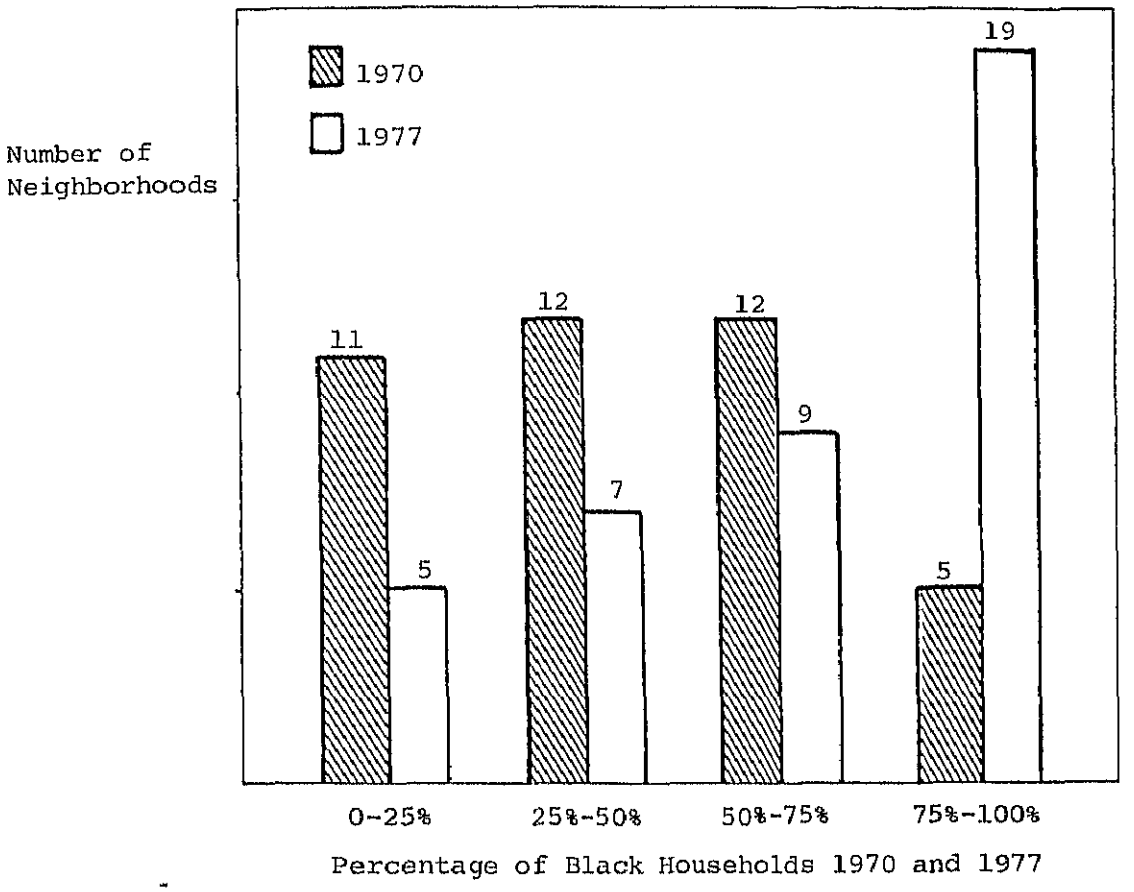
Quartiles of 1970 Distribution of Neighborhood Mean Income	1970 Mean Neighborhood Income as Percentage of 1970 SMSA Median Income	1977 Mean Neighborhood Income as Percentage of 1970 SMSA Median Income	Change in Mean Neighborhood Income as Percentage of 1970 SMSA Median Income
1st	0.66	0.89	.23
2nd	0.74	0.88	.14
3rd	0.81	0.94	.13
4th	0.99	1.23	.24
All Neighborhoods	0.80	.98	.19

Racial Change in the Urban Homesteading Neighborhoods

The racial composition of the urban homesteading neighborhoods changed dramatically over the period 1970-77. In Figure III.1-3, the distribution of the 40 neighborhoods in terms of the percentage of the population which was black is shown for both 1970 and 1977.

Figure III.1-3

FREQUENCY DISTRIBUTION OF NEIGHBORHOODS BY PERCENTAGE OF BLACK HOUSEHOLDS 1970 AND 1977



The increases in the black percentage of the population, illustrated in Figure III.1-3, are by no means uniform across the urban homesteading neighborhoods. In Figure III.1-4, the

CLASSIFICATION OF NEIGHBORHOODS BY PERCENTAGE OF BLACK HOUSEHOLDS 1970 AND 1977
(1970 data from 1970 Census; 1977 data from Household Interim Survey in Urban Homesteading Neighborhoods)

Percentage of Black Households 1970	Percentage of Black Households 1977: 0–25%	25%–50%	50%–75%	75%–100%
0–25%	Indianapolis-Brookside Islip-Old Central Islip Kansas City-Blue Hills South Bend-Riverside South Bend-Rum Village	New York-New Brighton Minneapolis-Northside Oakland-Fruitvale Tacoma-Tract 621		Chicago-Austin Milwaukee-Eastside
25%–50%		South Bend-Lasalle Park Tacoma-Tract 613 Rockford-Westside	Cincinnati-Madisonville Freeport-Area #1 Jersey City-Greenville Wilmington-Westside	Atlanta-Oakland City Chicago-Roseland Gary-Horace Mann Oakland-Elmhurst #2 Wilmington-Price's Run
50%–75%			Columbus-Near South Side New York-South Ozone Park Philadelphia-Wynnefield Tacoma-Tract 617	Dallas-Trinity-Lisbon Decatur-South Decatur Indianapolis-Forest Manor Kansas City-49-63 Area Milwaukee-Northwest Side Philadelphia-E. Mt. Airy Oakland-Elmhurst #1 Oakland-Central East
75%–100%			Wilmington-Baynard Blvd.	Baltimore-Park Heights New York-Baisley Park Oakland-Elmhurst #3 Oakland-Elmhurst #4

neighborhoods are categorized by the percentage of households which are black for both 1970 and 1977. With only one exception, Wilmington's Baynard Boulevard neighborhood, the neighborhoods have either remained relatively stable (those on the main diagonal) or have experienced increases in the percentage of the population which is black. Of these 39 neighborhoods, 17 are not reclassified by the 1977 data, 14 are reclassified into an adjacent category (i.e., from 25-50 percent black to 40-75 percent black); five are reclassified into a category once removed (i.e., from 25-50 percent black to 75-100 percent black) and two neighborhoods (Chicago-Austin and Milwaukee-Eastside) move the full range from less than 25 percent black to more than 75 percent black during the seven-year period.

Taken together, the general decline in the real income of residents of those areas between 1970 and 1977, and the significant racial change in over half of the neighborhoods, provide some gross characterization of the dynamics which contributed to their selection as urban homesteading target neighborhoods in the Fall of 1975.

Tenure Pattern Changes in Urban Homesteading Neighborhoods

The overall rate of homeownership in the urban homesteading neighborhoods increased, during a period of almost universal declines in the real income of neighborhood residents, by over ten percent. The pattern of changes in the rate of homeownership is not uniform across the neighborhoods. In Figure III.1-6, the frequency distribution of neighborhoods by the rate of homeownership is presented for both 1970 and 1977.

The shape of the distribution has changed quite distinctly, with the mode shifting from the 50-59 percent category to the 80-89 percent category, which accounts in 1977 for a quarter of all the neighborhoods. The pattern of change can be further examined by looking at the two-way classification of neighborhoods in terms of both their 1970 and 1977 homeownership rates in Figure III.1-5. The neighborhoods are almost equally distributed between categories in terms of those 1970 homeownership rates, with exactly ten

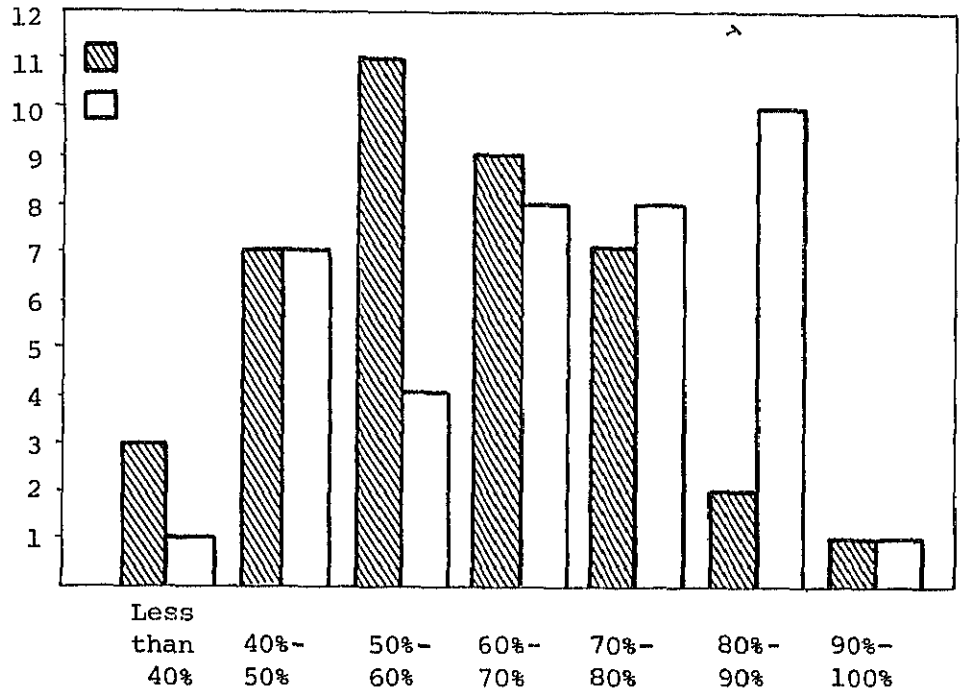
Figure III.1-5

CLASSIFICATION OF NEIGHBORHOODS BY HOME-OWNSERSHIP RATES 1970 AND 1977
(1970 tenure data from 1970 Census; 1977 data from Household Interim Surveys in Urban Homesteading Neighborhoods)

1970 \ 1977	Less than 50%	50%-60%	60%-70%	More than 70%
More than 70%			Indianapolis-Forest Manor Tacoma-Tract 621	Islip-Old Central Islip Kansas City-49-63 Area New York-South Ozone Park New York-Baisley Park Philadelphia-Wynnefield South Bend-Lasalle Park South Bend-Riverside Manor South Bend-Rum Village
60%-70%		Tacoma-Tract 617	Wilmington-Price's Run	Atlanta-Oakland City Dallas-Trinity-Lisbon Decatur-South Decatur Kansas City-Blue Hills Oakland-Elmhurst #4 Philadelphia-E. Mt. Airy Wilmington-Baynard Blvd.
50%-60%	Cincinnati-Madisonville Oakland-Cent. E. Oakland Oakland-Elmhurst #1 Oakland-Elmhurst #2		Freeport-Area #1 Minneapolis-Northside Wilmington-Westside	Chicago-Roseland Gary-Horace Mann Indianapolis-Brookside Tacoma-Tract 613
Less than 50%	Baltimore-Park Heights Jersey City-Greenville New York-New Brighton Oakland-Elmhurst #3	Columbus-Near South Side Milwaukee-Northwest Side Oakland-Fruitvale	Milwaukee-Eastside Rockford-Westside	Chicago-Austin

Figure III.1-6

DISTRIBUTION OF NEIGHBORHOODS BY HOME-OWNERSHIP RATE 1970 AND 1977



neighborhoods having more than 70 percent of the dwelling units owner-occupied. By 1977, the number of neighborhoods with home-ownership rates about 70 percent has doubled with exactly 20 neighborhoods falling into this category. Offsetting this are seven neighborhoods which have moved into lower categories of homeownership.

Property Value Changes in the Urban Homesteading Neighborhoods

As was discussed earlier, property values have some claim to serve as a key surrogate for many dimensions of neighborhood quality change. Changes in relative property values over time, holding the attributes of the property constant, provide a measure of the changing attractiveness of the areas in which the properties are located. In addition, property value changes have implications for the mobility of neighborhood residents and should be examined in conjunction with economic conditions in the neighborhoods.

One method of estimating the change in the values of owner-occupied properties over the period between 1970 and 1977 involves the time series analysis of purchase prices as reported by residents during the 1977 baseline survey. The increase in the value of a property which was purchased during the seven-year period can be calculated by comparing the owner's current estimate of market value with the price he or she originally paid for the property. The resulting increase (or decrease) can be represented as being made up of two components: (1) difference due to the use of different methods of valuation (i.e., owner's estimate vs. purchase price), and (2) the real change in the market value subsequent to purchase. To segregate these two components, it was assumed that property values changed at a fixed percentage rate which was different for each neighborhood. The percentage change in the market value of any individual property would then be given by the (constant) neighborhood growth rate compounded for the number of years elapsed since purchase.

The individual neighborhood annual growth rates (β_i) and the effect of the different valuation methods (α) were estimated by the following regression:

$$\text{Log} \frac{\text{Current Valuation}}{\text{Purchase Price}} = \alpha + \sum_i \beta_i \delta_i t + u$$

Where δ_i denotes the dummy variable for the ith neighborhood, t denotes the time elapsed since the last purchase and u denotes the error term. The regression results are presented in Table III.1-3; only single-family home purchases subsequent to 1969 are used in estimating the regression coefficients. One neighborhood, Oakland's Elmhurst 4 area, was dropped for the regression because the only recorded purchases in that area occurred either in 1977 or prior to 1970.

Examination of the 39 annual growth rate coefficients shows that property values increased quite modestly during the period. Across all neighborhoods, the mean growth rate, weighted by the number of single-family dwelling units, was 2.5 percent per annum.

This may be compared with the Census Bureau's Index of Home Purchase Prices for the same SMSA's, which increased at an annual average rate of 5.8 percent between December 1969 and December 1976.[4]

It should be mentioned that the 1970 Census data contain data on owners' valuations of their property which may be compared with similar data collected during the 1977 household interview wave in the urban homesteading neighborhoods. Using this alternative approach to the estimation of property value gains during the seven-year period, it appears that property values in the target areas grew faster than the analysis of purchase prices, described above, would suggest. Because the Census data cannot be reconciled with reported purchase prices in 1970, it appears that the Census data on estimated values may be unreliable. This is somewhat reinforced by the Census Bureau's own evaluation of these data.[5]

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[4] The average of the Census Bureau's Index of Home Purchase prices for each of 22 SMSA's was calculated both for December 1969 and December 1970 to arrive at an annual average growth rate of 5.8 percent. This index is based on the prices of FHA insured properties, which is probably a useful standard of comparison to apply.

[5] Possible bias in the Census Bureau's 1970 "Value of Home" data is discussed in Preliminary Evaluation Results Memorandum No. 48 of the Social Economic Statistics Administration, Bureau of the Census, dated October 2, 1974. On the basis of comparisons between the answers to Census question H-11 and 1971 selling price data, the authors concluded that "the Census report understates the median selling price of (single family owner-occupied) homes" and that "an estimated difference of $1,336 (with a 95 percent confidence interval of $660 to $2,017) exists between these medians as a result of response errors. The same memorandum reports that the finding is consistent in direction with differences between the Census value of home and the median value of home obtained from interview data; the difference between these was reported to be $2,453 (95 percent confidence interval $2,187-$2,719).

Table III.1-3

PROPERTY VALUE APPRECIATION REGRESSION RESULTS
(Single Family Owner-Occupants)
433 Degrees of Freedom

Dependent Variable:
Log (Current Market Value/Purchase Price)

Independent Variable		Coefficient	t-Value
CONSTANT		.108	
GROWTH RATE			
Atlanta	Oakland City	.016	0.94
Baltimore	Park Heights	.036	1.56
Chicago	Austin	-.025	-1.38
	Roseland	.005	0.33
Cincinnati	Madisonville	.028	1.33
Columbus	Near South Side	.050	.217
Dallas	Trinity-Lisbon	.002	0.18
Decatur	South Decatur	.014	0.58
Freeport	Area #1	.031	1.82
Gary	Horace Mann	.036	3.00
Indianapolis	Forest Manor	.016	1.00
	Brookside	.042	1.75
Islip	Old Central Islip	.047	2.61
Jersey City	Greenville	.053	1.29
Kansas City	Blue Hills	.127	2.26
	49-63	.048	1.65
Milwaukee	Eastside	.001	0.04
	Northwest Side	-.023	1.27
Minneapolis	Northside	.033	1.73
New York	South Ozone Park	.042	2.80
	Baisley Park	.039	2.43
	New Brighton	-.017	-0.32
Oakland	Fruitvale	.048	0.39
	Central E. Oakland	.016	0.80
	Elmhurst #1	.017	0.65
	Elmhurst #2	.023	0.72
	Elmhurst #3	.024	0.77
Philadelphia	Wynnefield	.022	0.54
	East Mt. Airy	.074	4.11
Rockford	Westside	.027	1.42
South Bend	Riverside Manor	.034	0.76
	Rum Village	.060	2.60
	Lasalle Park	.000	0.00
Tacoma	Census Tract 613	.016	0.69
	Census Tract 617	.216	2.95
	Census Tract 621	.022	0.11
Wilmington	Baynard Boulevard	.031	2.21
	Price's Run	.045	1.96
	Westside	.017	0.65
R.SQR		.150	

Mobility in the Urban Homesteading Neighborhoods 1970-1977

One of the central interests in the examination of longitudinal data on the urban homesteading neighborhoods will be the mobility of the resident populations during the homestead residency period. The design of the resident survey, which uses the occupant of a pre-selected dwelling as the sampling unit, is intended to permit examination of why some households move and some do not; this will be carried out by comparisons of movers and stayers. A second major interest is on change in the socioeconomic and demographic characteristics of residents; a major part of this change will be accounted for by differences between movers-out and movers-in. Both kinds of comparison (movers vs. stayers and movers-out vs. movers-in) require that at least two complete waves of resident survey data be available for analysis.

The availability of one wave of resident survey data does permit some limited analysis of mobility based on the distribution of the length of residence of households currently living in these neighborhoods. The cumulative distributions of length of residence for owners, renters and all residents (Figure III.1-7) are not suggestive of great instability, at least for the urban homesteading neighborhoods taken as a group.

The mobility rates implied in Figure III.1-7 are not much different from comparable national mobility rates. Approximately 8.8 percent of all residents of the homestead areas had occupied their current residence for six months or less, which implies that approximately 18 percent of the residents of the urban homesteading areas move out of their dwelling unit each year. This compares with a national average of 18.4 percent of the population moving in a one-year period.[6] In 1970, 56 percent of the population of all the urban homesteading neighborhoods had moved

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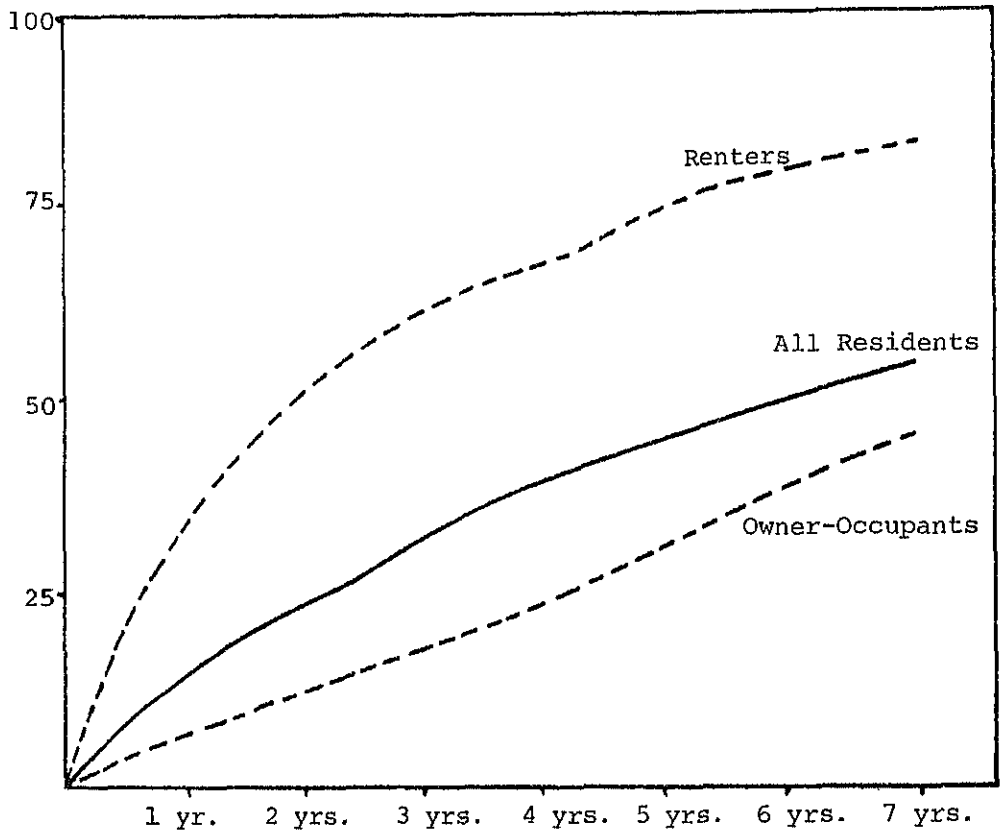
[6] Current Population Reports, Population Characteristics, Series P-20, 1969.

Figure III.1-7

CUMULATIVE DISTRIBUTION OF CURRENT RESIDENTS BY LENGTH OF RESIDENCE



into their unit within the previous five years; by 1977, as Figure III.1-7 shows, this percentage had actually fallen to below 50 percent, indicating a reduction in the overall mobility rate. This reduction is probably explained in large part by the increase in the percentage of owner-occupants, whose mobility rates are much lower than those of renters.

Sample size limitations make inter-neighborhood year-to-year comparisons quite unreliable, but it is interesting to compare neighborhoods on the basis of the percentage of families currently residing in these neighborhoods who moved in since 1970. This statistic ranges from an estimated 100 percent in Chicago-Austin to an estimated three percent in Oakland's Elm-

hurst 4 neighborhood; both those neighborhoods are outliers in the sample, however, and the estimates are subject to sampling fluctuation. In the remaining 38 neighborhoods, the percent of the population which moved in after 1970 ranges from 78 percent in Gary's Horace Mann neighborhood to 27 percent in South Bend's Lasalle Park neighborhood. This distribution is presented in Table III.1-4.

The range of experience of the urban homesteading neighborhoods in the percentage of 1970 residents who have remained is quite evident. Evidently, some neighborhoods have experienced little population instability with fewer than 50 percent of the current residents having moved in since 1970; this includes four neighborhoods where less than 40 percent of the units have turned over during the seven-year period. At the other extreme are 12 neighborhoods where less than 40 percent of the current residents were also residents in 1970. Included in those 12 neighborhoods are five of the seven neighborhoods which experienced the most rapid racial change during the period.

Table III.1-4

PERCENTAGE OF CURRENT RESIDENTS MOVING IN SINCE 1970 BY NEIGHBORHOOD

Percentage of Residents Who Moved Into Unit Since 1970	# of Neighborhoods	Neighborhood	
0-25%	1	Oakland Elmhurst #4	
25%-40%	3	New York-South Ozone Park Rockford-Westside South Bend-Lasalle Park	South Bend-Riverside Manor
40%-50%	12	Decatur-South Decatur Indianapolis-Brookside Islip-Old Central Islip New York-Bainley Park Philadelphia-Wynnefield Philadelphia-E. Mt. Airy	South Bend-Riverside Manor South Bend-Rum Village Tacoma-Tract 617 Tacoma-Tract 621 Wilmington-Price's Run Wilmington-Westside
50%-60%	12	Baltimore-Park Heights Dallas-Trinity-Lisbon Freeport-Area #1 Indianapolis-Forest Manor Jersey City-Greenville Milwaukee-Eastside	New York-New Brighton Oakland-Fruitvale Oakland-Central East Oakland-Elmhurst #3 Tacoma-Tract 613 Wilmington-Baynard Blvd.
60%-75%	10	Atlanta-Oakland City Chicago-Roseland Cincinnati-Madisonville Columbus-Near South Side Kansas City-Blue Hills	Kansas City-49-63 Area Milwaukee-Eastside Minneapolis-Northside Oakland-Elmhurst #1 Oakland-Elmhurst #2
75%-100%	2	Chicago-Austin Gary-Horace Mann	

Attempts to classify the urban homesteading neighborhoods into a limited set of distinct groups on the basis of their estimated change between 1970 and 1977 are hard to resist, but probably misconceived. There are some apparent natural groupings, especially for those neighborhoods which have changed dramatically over the period. For most of the neighborhoods, especially those in the middle range of the 1970 and 1977 distributions of income, racial composition, tenure type and housing value, four natural groupings emerge, with many of the neighborhoods exhibiting modest change along different dimensions, with the directions of change along each dimension being seldom the same from one neighborhood to another.

The most clear-cut way of organizing the neighborhoods into major groups is to focus on the 1970 racial composition and the extent to which this has changed over the period. Looking then at the neighborhoods which fall into each of those categories, some common features of income, tenure, housing value and mobility can be identified for each sub-group as follows:

NEIGHBORHOODS WHICH WERE PREDOMINANTLY WHITE (MORE THAN 75%) IN 1970

Remained Predominantly White (More than 75% White)	Became More Integrated (25%-75% White)	Became Predominantly Black (More than 75% Black)
Islip-Old Central Islip Kansas City-Blue Hills Tacoma-Tract 621 South Bend-Riverside	New York-New Brighton Minneapolis-Northside Oakland-Fruitvalue Indianapolis-Brookside	Chicago-Austin Milwaukee-Eastside
These neighborhoods have typically higher than average income (≥110% 1970 SMSA median), high rates of homeownership, and higher than average housing value growth rates. With the exception of Blue Hills, tenure rates have been low.	These neighborhoods have typically lower incomes as percent of SMSA median, have had modest growth in homeownership and modest to insignificant housing value growth.	The dramatic racial change has been accompanied in both instances by growth in homeownership and a weak housing market. In Austin, incomes declined in current dollars.

NEIGHBORHOODS WHICH WERE INTEGRATED (25%-75% WHITE) IN 1970

Remained Integrated (25%-75% White)	Became Predominantly Black (75%-100% Black)
South Bend-Lasalle Tacoma-Tract 613 Rockford-Westside Cincinnati-Madisonville Freeport-Area #1 Jersey City-Greenville Wilmington-Westside Columbus-Near South Side New York- South Ozone Park Philadelphia-Wynnefield Tacoma-Tract 617	Atlanta-Oakland City Chicago-Roseland Gary-Horace Mann Oakland-Elmhurst 2 Wilmington-Prices Run Dallas-Trinity Lisbon Decatur-South Decatur Indianapolis-Forest Manor Kansas City-49-63 Milwaukee-Northwest Side Philadelphia-East Mt. Airy Oakland-Elmhurst 1 Oakland-Central East
Although hard to generalize, this group appears to show modest income gains (current dollars), homeownership growth or stability in all but two instances and lower than average mobility over the period. Housing value gains above the average were recorded in six of eleven neighborhoods.	Considerable variation in income growth, with some significant declines; general growth or stability in homeownership except for two Oakland neighborhoods; nine of 13 neighborhoods showed housing value increases below average. Higher than average mobility over the period.

NEIGHBORHOODS WHICH WERE PREDOMINANTLY BLACK (MORE THAN 75%) IN 1970

Became Integrated (25%-75% Black)	Remained Predominantly Black (More than 75% Black)
Wilmington-Baynard Blvd.	Baltimore-Park Heights New York-Baisley Park Oakland-Elmhurst 3 Oakland-Elmhurst 4
Higher than average income growth, significant increase in homeownership; housing value growth and mobility slightly above average.	Income growth modest, little change in homeownership, lower than average mobility and no pattern to housing value gains.

The experience of the urban homesteading neighborhoods from 1970 to 1977 can only be characterized in gross terms using the data which are available from the Census. Nevertheless, the patterns, and absence of patterns, which emerge provide a useful background to the more detailed and intensive study of these neighborhoods during the homesteading residency period. Certain basic features of the 1970-77 experience appear to deserve attention as precursors of neighborhood decline. These include the almost universal decline in real household incomes over the period, the incidence of racial change, the somewhat surprising change in tenure patterns and the very modest growth, or the real decline, in the value of owner-occupied housing units.

III.2 INVESTMENT, PROPERTY VALUES AND HOUSING COSTS IN THE URBAN HOMESTEADING NEIGHBORHOODS IN 1977

In the previous section, changes in the urban homesteading neighborhoods during the seven-year period prior to the Urban Homesteading Demonstration were described. In this Section, the conditions of the Urban Homesteading neighborhoods at the outset of the Demonstration in early 1977 are reviewed with particular reference to the economics of the housing stock. The three topics treated below are: (1) Housing Maintenance and Investment Expenditures, (2) Values of Owner-Occupied Properties, and (3) Housing Costs of Renters and Owner-Occupants.

Expenditures on housing maintenance and repairs are of considerable interest in view of the concern for the preservation of the existing housing stock. The relative decline in property values in the years prior to the Demonstration might be expected to depress the rate of home maintenance and investment in the urban homesteading neighborhoods. The evidence drawn from data collected in 1977 suggests that, at least on average, investment rates have remained encouragingly high and compare favorably with national average statistics on home investment by central city residents.

Housing prices in the urban homesteading neighborhoods were shown in the last Section to have declined in the years before 1977. Current prices of owner-occupied single-family homes in the urban homesteading neighborhoods are compared to estimates of the average price of single-family homes in each of the 22 SMSAs where Urban Homesteading Demonstration were underway in 1977. The results of those comparisons indicate that owner-occupied single-family housing in the urban homesteading neighborhoods is selling for almost 25% less than owner-occupied single-family housing in the same SMSAs.

The costs of housing for owner-occupants and for renters in 1977 are also presented and discussed in this section. These costs are decomposed into their constituent elements (debt-

service, utilities, taxes and insurance) for owners both with and without outstanding mortgages. The average costs, both for owners and renters, are also presented by neighborhood.

Housing Investment in the Urban Homesteading Neighborhoods

Investment in the housing stock is one of the central variables of interest in the analysis of neighborhood change. Typically, the neighborhoods selected for urban homesteading have suffered some deterioration in the physical housing stock, implying that, at least for some properties, gross investment has been inadequate to offset physical depreciation over time. Evidence of this is found in the fact that over six percent of properties in the urban homesteading target areas were either dilapidated or had minor exterior defects, and that a further 1.8 percent of properties were unoccupied and boarded up. At the same time, the overwhelming majority of properties appeared to on-site observers to have no exterior defects and 75 percent of all households interviewed rated their housing as good.

The source of data for the analysis of investment behavior is provided by the household survey of neighborhood residents. This survey included questions, directed primarily at owner-occupants on the amount and type of investment undertaken during the previous 12 months. Completed responses to questions on housing investment were obtained from 1,717 residents of the urban homestead neighborhoods. A total of 2,812 separately identified jobs were performed, for an overall average of 1.6 distinct investments per respondent, including both owners and renters. Sixteen separate categories were used to classify investments by type. The relative frequency of investments and the average cost of each type of job is presented in Table III.2-1.

Table III.2-1

FREQUENCIES AND COSTS OF INVESTMENTS BY INVESTMENT TYPE

TYPE OF INVESTMENT	PERCENTAGE REPORTING TYPE OF INVESTMENT			AVERAGE COST OF INVESTMENT
	OWNERS (n = 1,220)	RENTERS (n = 497)	ALL (n = 1,717)	OWNER-INVESTORS (n = 712)
Repairing or replacing the plumbing fixtures	19.4	24.6	21.2	$ 135
Repairing or replacing the electrical system or fixtures	10.3	10.2	10.2	269
Repairing or replacing the heating system	8.9	13.2	10.4	347
Repairing or replacing the roof, gutters, or downspouts	13.3	8.9	11.8	540
Repairing, replacing, or adding siding such as wood, vinyl, aluminum	3.7	0.6	2.6	2,611
Repairing, replacing or adding a porch, deck, or patio	6.8	9.0	7.5	389
Repairing, replacing, or adding sidewalks, fencing, a driveway, or landscaping	8.2	4.5	7.0	346
Repairing, replacing or adding any stairways or railing either inside or outside	3.8	5.2	4.3	272
Painting the exterior	20.0	9.0	16.2	178
Remodeling the kitchen, bathroom or any other room	12.1	8.0	10.7	942
Replacing or adding cabinetry, or major appliances	6.2	4.5	5.6	374
Repairing, replacing or adding screens, windows, or storm windows	11.2	12.4	11.6	238
Painting, plastering, panelling or papering the walls or ceilings	24.5	21.6	23.5	143
Replacing or adding floor coverings such as tiles, linoleum, or carpeting	18.2	11.2	15.8	278
Making any additions or other alterations	5.0	2.0	4.0	1,186
Security: locks, bars, etc.	1.8	0.7	1.4	595
Average Number of Investments	1.7	1.4	1.6	
Average Total Cost				929.26

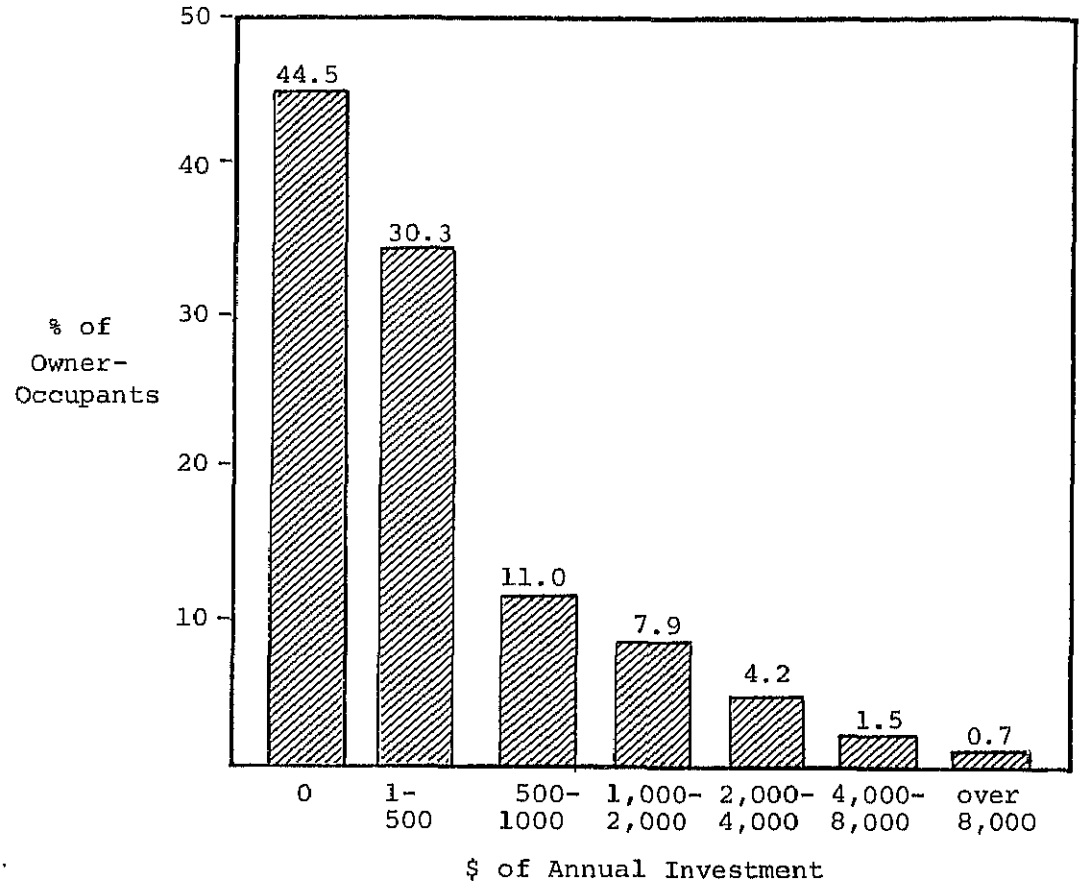
The average dollar investment amount for owners who undertook investment was $929, almost eight percent of the mean household income ($12,160) of all owner-occupants making an investment in the 12-month period. The median investment for those investing was $430. The number of owner-occupants who made an investment was 712, or 62 percent of all owner-occupants in the sample. Adjusting for differential sampling rates within the neighborhood, it is estimated that 55 percent of all owner-occupants invested in their properties over the 12-month period. The overall average annual investment expenditure per property for the sample as a whole is $526 -- or about 4.2 percent of the mean household income of all owner-occupants -- still a considerable amount. The standard error of estimate on the overall sample mean for owner-occupants weighted to adjust for different sampling rates, both within and across neighborhoods, is $34. The distribution of owner-occupants by the dollar amount of their aggregate investment is given in Figure III.2-1.

Investment rates differ significantly across neighborhoods. In Table III.2-2, the estimated percentage of those making investments, and the average amount of investment for those who did invest, are presented for each neighborhood. A test of the hypothesis that there is no difference between neighborhoods in the proportion of those who invest yields a χ^2 statistic with a value of 140.3 (39 d.f.) and the hypothesis is overwhelmingly rejected.

It is interesting to compare these results with comparable data provided by the Survey of Residential Alterations and Repairs conducted quarterly by the U.S. Bureau of the Census. Data from this survey in the winter of 1976 show an estimated 1.6 investment projects per dwelling unit by owner-occupants in central cities, as compared to the average of 1.7 investment projects per owner-occupant reported in Table III.2-2 for the urban homesteading neighborhoods. The census survey also shows an average expenditure level of $405 per annum per dwelling

Figure III.2-1

DISTRIBUTION OF OWNER-OCCUPANTS BY DOLLAR AMOUNT OF INVESTMENT



unit on all home repair and improvement work for central city owner-occupants in 1975-6. This should be compared with the estimated $516 per annum which owner-occupants in the urban homestead neighborhoods spent on home repair and improvement activities. If the latter number is reported on a per dwelling unit basis, the average expenditure of urban homesteading owner-occupants is $442, which is very close to the comparable census value. In view of the economic circumstances of the residents of the urban homesteading neighborhoods, the level of investment in home maintenance and repair activity must be regarded as quite encouraging.

Table III.2-2

HOUSING INVESTMENT--HOMEOWNERS RESIDENTS
(All statistics adjusted for differential sampling rates within & across neighborhoods)

CITY	NEIGHBORHOOD	SAMPLE SIZE	PERCENT OF HOMEOWNERS MAKING INVESTMENT	AVERAGE VALUE OF INVESTMENT --INVESTORS
Atlanta	Oakland City	24	72.1	$ 405
Baltimore	Park Heights	25	78.9	669
Chicago	Austin	16	48.9	1,932
	Roseland	28	50.0	2,558
Cincinnati	Madisonville	20	65.5	1,168
Columbus	Near South Side	28	74.6	860
Dallas	Trinity-Lisbon	82	73.9	717
Decatur	South Decatur	30	82.0	632
Freeport	Area #1	25	39.7	661
Gary	Horace-Mann	32	81.6	592
Indianapolis	Forest Manor	62	55.3	1,270
	Brookside	15	37.7	193
Islip	Old Ctl. Islip	46	53.0	1,423
Jersey City	Greenville	7	100.0	380
Kansas City	Blue Hills	10	71.1	372
	49-63 Area	16	59.3	668
Milwaukee	Eastside	13	30.7	481
	Northwest Side	43	37.9	699
Minneapolis	Northside	53	65.6	1,521
New York	South Ozone Park	46	47.6	2,095
	Baisley Park	53	57.4	1,143
	New Brighton	7	98.6	813
Oakland	Fruitvale	9	52.4	523
	Central East Oak.	25	55.4	523
	Elmhurst #1	19	69.0	2,308
	Elmhurst #2	13	91.0	582
	Elmhurst #3	12	86.0	988
	Elmhurst #4	6	95.7	97
Philadelphia	Wynnefield	40	37.1	1,122
	East Mr. Airy	49	46.5	909
Rockford	Westside	73	29.7	638
South Bend	Riverside Manor	8	48.2	380
	Rum Village	36	85.1	897
	Lasalle Park	35	66.3	489
Tacoma	Census Tract 613	14	35.0	1,027
	Census Tract 617	10	75.4	284
	Census Tract 621	16	48.1	1,734
Wilmington	Baynard Boulevard	58	67.6	634
	Price's Run	18	57.4	533
	Westside	28	73.3	577
All Neighborhood Residents		1,130	55.5	$ 929

The economic theory of neighborhood change suggests that property values serve as a key indicator and surrogate for many of the influences which shape the future of urban neighborhoods. Changes in the relative desirability of neighborhoods find expression in shifts in the demand for the neighborhood housing stock. Factors which have been found to affect the demand were reviewed above at some length.[1] These factors include environmental quality defined broadly to include public safety, the physical environment, and the condition of the physical infrastructure, municipal services, accessibility to employment and shopping opportunities, and the economic and demographic circumstances of other residents. Neighborhoods which become relatively less desirable along any or all of these dimensions typically experience a downward shift in the demand for the neighborhood housing stock. Since the housing stock can change only slowly with time, shifts in demand find immediate expression in the value of the neighborhood housing stock.

The supply response to reductions in the value of housing, especially if they are expected to persist, is likely to be a reduction in the rate of housing maintenance and investment, including in extreme cases, the abandonment of properties. Because this response reduces the quality of housing services, it tends to reinforce the downward movement of property values. The resulting changes in property values then come to reflect a concomitant decline both in the relative attractiveness of the neighborhood and of the housing stock contained in it. Typically relative declines in neighborhood property values are also accompanied by relative declines in the economic circumstances of neighborhood residents, as those who can afford more expensive housing move out and those who cannot afford more expensive housing move in. Conversely, in neighborhoods

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[1] See above, pp. 34-37.

which are becoming relatively more desirable, property values tend to increase faster than in other areas, investment rates rise and there is a tendency for higher income families to supplant those purchasers who can no longer afford homes at the new prices or to displace existing residents who cannot afford the higher costs.

To the extent that we are concerned with the welfare of neighborhood homeowners, increases in property values are clearly desirable. For owners, property value appreciation increases their equity in the property without affecting their monthly cash housing expenses, except insofar as they are subject to tax reassessment or they elect to increase the insured value of the property. As long as they remain in the neighborhood, increases in the value of their property constitute a source of untaxed income and an opportunity to save. If they elect to leave the neighborhood, they can apply that part of the proceeds of the sale of the property attributable to increase in the property value to the purchase price of another property or to other forms of expenditure, either current or deferred.

For renters of property, increases in property values which result in increased rents are generally not desirable. To the extent that the property value changes reflect real improvements in neighborhood amenities or housing services, the undesirable aspects of increased housing costs to renters are in part offset. If they elect to remain, then we can presume that the net disadvantages are not large enough to offset the costs of moving. If they do relocate as a result of increases in rental rates, then the benefits which accrue to those who replace them must be reduced by the loss of benefits incurred by those displaced.

Detailed examination of the incidence of benefits and disbenefits which result from property value changes in older urban neighborhoods must await longitudinal data on housing prices and mobility in these neighborhoods. In the meantime, it is useful to examine the property value data provided by the first cross-section of household interviews with residents of the urban homestead neighborhoods. In this section, property values are examined in the cross-section using the owner's estimate of the value of his own property. As discussed in Section III.1 above, the prices of single-family properties in homesteading neighborhoods appear to have risen at an annual rate of around 2.5 percent since 1970. This is much lower than the overall average rate of increase in property values and, in real terms, constitutes an actual decline in the value of these properties.

Based on the estimates of 1,216 owner-occupants residing in the urban homestead neighborhoods, the average value of a property in these areas is $21,303. This number is a weighted average, which adjusts for differential sampling rates within the urban homestead neighborhoods, so that it constitutes an estimate of the average homeowner's assessment of his property's value across all the urban homestead neighborhoods. These mean values range from a high of $34,077 in New Brighton, New York, to a low of $11,369 in Brookside, Indianapolis. Of the total variance in respondents' assessments of their own property's value, 32.4 percent is attributable to variation among neighborhoods and 67.6 percent is to variation within neighborhoods. As might be expected, the differences among neighborhoods are highly significant.

In Table III.2-3, the mean values of owner-occupied single-family properties in each of the urban homesteading neighborhoods are presented, together with the sample sizes on which these estimates are based. Also presented in this Table are estimated median values of single-family owner-occupied properties in each

Table III.2-3

COMPARISON OF OWNER-OCCUPIED ESTIMATED PROPERTY VALUES WITH ESTIMATED MEDIAN VALUE OF SMSA PROPERTY VALUES (SINGLE-FAMILY HOMES)

CITY	NEIGHBORHOOD	(1) MEAN OF OWNERS' ESTIMATES OF PROPERTY VALUE (SINGLE-FAMILY)	(2) ESTIMATED MEDIAN VALUE OF OWNER-OCCUPIED SINGLE-FAMILY PROPERTIES IN SMSA*	RATIO (1)/(2)
Atlanta	Oakland City	19,813	28,591	0.69
Baltimore	Park Heights	16,569	30,598	0.54
Chicago	Austin	16,840	34,214	0.49
	Roseland	25,068	34,214	0.73
Cincinnati	Madisonville	21,575	27,016	0.79
Columbus	Near South Side	17,652	28,398	0.62
Dallas	Trinity-Lisbon	16,388	23,788	0.68
Decatur	South Decatur	19,010	28,591	0.66
Freeport	Area #1	33,396	40,101	0.83
Gary	Horace-Mann	20,764	24,077	0.86
Indianapolis	Forest Manor	16,952	22,872	0.74
	Brookside	11,292	22,872	0.49
Islip	Old Central Islip	33,562	40,101	0.83
Jersey City	Greenville	16,027	23,239	0.68
Kansas City	Blue Hills	17,704	24,995	0.70
	49-63 Area	15,892	24,995	0.63
Milwaukee	Eastside	14,605	26,037	0.56
	Northwest Side	15,703	26,037	0.60
Minneapolis	Northside	24,101	32,831	0.73
New York	South Ozone Park	33,226	40,101	0.82
	Baisley Park	24,424	40,101	0.60
	New Brighton	30,331	40,101	0.75
Oakland	Fruitvale	23,458	42,314	0.55
	Central East Oakland	23,734	42,314	0.56
	Elmhurst #1	22,804	42,314	0.53
	Elmhurst #2	28,540	42,314	0.67
	Elmhurst #3	20,061	42,314	0.47
	Elmhurst #4	25,581	42,314	0.60
Philadelphia	Wynnefield	31,194	24,883	1.25
	East Mt. Airy	20,449	24,883	0.82
Rockford	Westside	19,569	26,330	0.74
South Bend	Riverside Manor	24,583	17,318	1.41
	Rum Village	13,010	17,318	0.75
	LaSalle Park	17,467	17,318	1.01
Tacoma	Census Tract 613	19,274	22,530	0.85
	Census Tract 617	18,089	22,530	0.80
	Census Tract 621	16,590	22,530	0.73
Wilmington	Baynard Blvd.	25,605	28,390	0.90
	Price's Run	15,757	28,390	0.55
	Westside	12,962	28,390	0.45
	ALL NEIGHBORHOODS	20,692	27,273	0.76

* Estimated SMSA Median Values were computed by inflating the 1970 Census Home Value SMSA Medians by the increase in the Census Bureau's Home Purchase Price Index for each SMSA.

of the urban homesteading SMSA's; these were calculated by taking the 1970 census estimate of the median value of a single-family home in the SMSA, and inflating it by the Census Bureau's Home Purchase Price Index growth over the period December 1969-1976. In the last column of Table III.4-3, the ratio of the values of single-family properties in the urban homesteading neighborhoods to those of the SMSA, are presented. Comparison of these ratios across neighborhoods provides an indication of the relative market position of the housing stock in the urban homesteading neighborhoods to that of the city as a whole. Across all neighborhoods, the single-family properties in the urban homesteading areas are estimated to be worth approximately 76 percent of the median value of a single-family home in the same SMSA.

Strictly speaking these comparisons lump together differentials in housing prices which are attributable to locational or neighborhood effects and differentials which are attributable to deviations in the characteristics of the neighborhood housing stock from the characteristics of the city-wide housing stock. Because the effect of these housing characteristics on price are likely to differ from one metropolitan area to another and because the city sample sizes are too small to permit estimation of city-specific hedonic price equations, however, the usual practice of removing their effects is not attempted here. The variations in the ratio of neighborhood to city-wide housing prices from one neighborhood to another therefore represent the joint influence of both housing attributes and neighborhood variables.

Housing Costs of Residents in the Urban Homesteading Neighborhoods

The monthly cash outlays for housing of residents of the urban homestead neighborhoods are of interest both to provide a baseline for comparison with subsequent survey waves and also to shed light on the extent to which these costs are reasonable given the economic circumstances of these residents. In presenting these costs it is useful to distinguish three categories of resident: (1) renters, (35% of all households), (2) owners with outstanding mortgages (46% of all households), and (3) owners with no outstanding mortgage (19% of all households).

Monthly cash housing outlays are defined here to include rental or mortgage payments, utilities, property taxes and insurance; utilities are included in rental payments for 8.8 percent of renters. These costs are not adjusted in this analysis for amortization, foregone interest on equity or tax effects, appreciation or changes in the cost of living.

For all neighborhoods, the weighted estimate of monthly housing expenses was lowest for owners with no outstanding mortgage--$120 per month. Next come renters with average housing expenses of $197 per month. Lastly, owners with outstanding mortgages made the heaviest average cash outlays for housing--$243 per month. The overall average for all groups across all neighborhoods was $204 per month, which constituted 23 percent of the average annual income of all residents of $10,675.

The composition of average monthly cash outlays for housing between mortgage payments, taxes, utilities and insurance is presented in Table III.2-4 for both subgroups of owners and for all renters as a group.

Table III.2-4

COMPOSITION OF OWNERS MONTHLY CASH OUTLAYS FOR HOUSING

Category of Expense	Owners With Mortgages (n = 722)	Owners Without Mortgages (n = 498)	All Owners
Debt Service	$111 (46%)	$	$ 79 (38%)
Utilities	92 (38%)	81 (68%)	89 (43%)
Taxes	33 (14%)	30 (25%)	32 (15%)
Insurance	7 (3%)	9 (8%)	9 (4%)
TOTAL	$243 (100%)	$120 (100%)	$208 (100%)

Variations in housing costs are substantial from neighborhood to neighborhood. These variations are not explained by variations in the mix of renters, owners, and mortgagers in each location.[2] Three neighborhoods averaged around or above $300/month and four averaged less than $140/month. These figures are presented in Table III.2-5. If further adjustment is made for household income, these patterns of expenses among neighborhoods persist. Three neighborhoods had shelter cost ratios of over 45 percent and five averaged around or below 18 percent.

The most expensive neighborhoods both in terms of housing cost/month and cost as a percentage of income were the Austin section of Chicago, Area #1 of Freeport, New York, and New Brighton, in New York City. The least expensive by both criteria were Brookside, in Indianapolis, and Fruitvale, in Oakland, California.

Summary

In reviewing the overall experience of urban homesteading area residents in terms of investment, property values and housing costs, it is useful to draw comparisons with apporpriate statistics on these variables, drawn for larger populations. Reference has already been made to the comparable statistics on homeowners

[2] F-statistic for neighborhood effect controlling for renter/owner/mortgager differences was 27.8.

Table III.2-5

AVERAGE HOUSING COST/MONTH
(sample size)

CITY	NEIGHBORHOOD	ALL OWNERS		RENTERS	
Atlanta	Oakland City	205	(25)	172	(12)
Baltimore	Park Heights	240	(27)	231	(44)
Chicago	Austin	261	(18)	234	(11)
	Roseland	284	(30)	185	(10)
Cincinnati	Madisonville	203	(20)	192	(8)
Columbus	Near South Side	163	(32)	162	(23)
Dallas	Trinity-Lisbon	182	(89)	155	(29)
Decatur	South Decatur	213	(31)	193	(7)
Freeport	Area #1	408	(25)	376	(16)
Gary	Horace-Mann	269	(34)	210	(6)
Indianapolis	Forest Manor	175	(62)	112	(6)
	Brookside	135	(17)	152	(10)
Islip	Old Ctl. Islip	323	(46)	363	(7)
Jersey City	Greenville	259	(8)	179	(11)
Kansas City	Blue Hills	159	(12)	225	(3)
	49-63 Area	216	(19)	150	(6)
Milwaukee	Eastside	160	(13)	157	(8)
	Northwest Side	204	(44)	201	(35)
Minneapolis	Northside	186	(54)	206	(26)
New York	South Ozone Park	266	(46)	339	(8)
	Baisley Park	264	(53)	383	(16)
	New Brighton	307	(7)	264	(9)
Oakland	Fruitvale	117	(10)	122	(6)
	Central East Oak.	174	(25)	150	(17)
	Elmhurst #1	189	(21)	191	(17)
	Elmhurst #2	224	(14)	172	(6)
	Elmhurst #3	139	(12)	170	(11)
	Elmhurst #4	168	(7)	247	(1)
Philadelphia	Wynnefield	252	(40)	197	(6)
	East Mr. Airy	174	(51)	161	(13)
Rockford	Westside	156	(78)	185	(35)
South Bend	Riverside Manor	200	(8)	185	(1)
	Rum Village	136	(41)	182	(11)
	Lasalle Park	168	(38)	118	(4)
Tacoma	Census Tract 613	116	(19)	185	(10)
	Census Tract 617	134	(10)	160	(8)
	Census Tract 621	94	(16)	202	(5)
Wilmington	Baynard Boulevard	250	(16)	169	(12)
	Price's Run	202	(20)	156	(9)
	Westside	214	(32)	150	(13)
All Neighborhood Residents		208	(1120)	197	(448)

investment behavior provided by the Census Bureau's Survey of Residential Alterations and Repairs. Despite household incomes which are low relative to the SMSA medians, owner-occupants in the urban homesteading neighborhoods appear to have made housing investment at approximately the same rate per dwelling unit as other central city residents. This is a somewhat surprising finding since these neighborhoods were selected because they showed signs of blight and evidence of inadequate home maintenance. Reconciliation of these findings may lie in the existence of low rates of investment in prior years which is now being remedied through accelerated repairs and improvements. This would be a very encouraging finding, but analysis of additional longitudinal data will be required before the hypothesis of accelerated investment rates can be tested.

The encouraging evidence on investment behavior must be set off against very mixed results on the behavior of property values. It is not, of course, clear that property value appreciation is a necessarily desirable result. However, the continued relative decline in real property values, which appears to have characterized the urban homesteading neighborhoods between 1970 and 1977, is clearly a trend which is inimical to the objectives of housing reinvestment and neighborhood stabilization.

The housing costs of residents of the urban homesteading areas appear to be quite high in view of the relative economic status of the neighborhoods. The mean gross rent paid by residents was $197/month which may be compared with $166/month, the median gross rent paid by central city residents in the $7,000 - $9,999 annual income bracket reported in the Annual Housing Survey for 1976. The median single family property value for owner-occupants in central cities for households with income in the range of $10,000 - $14,999 was given in the 1976 Annual Housing Survey as $26,300, which can be compared with

$20,692 for owner-occupants in the urban homesteading neighborhoods. In general, when average annual investment expenses are included with the cash expenses of owner-occupants, it appears that the average cash expenses of shelter in the urban homesteading neighborhoods account for approximately 26 percent of the mean household income of all residents.

III.3 URBAN HOMESTEADING SUB-NEIGHBORHOODS

The economic analysis of urban neighborhoods is predicated on the assumption that a high degree of geographic compartmentalization within the metropolitan area housing market exists. As discussed earlier,[1] the importance of geographic compartmentalization lies in the existence of a set of submarkets, between which the price of comparable housing may vary. Sharp differences may also exist in the demographic and socioeconomic characteristics of the residents of different submarkets. Once the geographic boundaries of these submarkets, or neighborhoods, are established, households and neighborhoods within each neighborhood can be treated as being subject to a common set of market forces. Neighborhood change can then be regarded at least in part, as the outcome of the market forces operating consistently on all households and properties within each neighborhood.

In developing the sampling design for the urban homesteading neighborhoods, there was some concern that, because each Demonstration City defined its neighborhood boundaries according to different administrative criteria, the resulting neighborhoods would not form homogenous sub-markets which could be effectively compared with one another for the purposes of analysis. To avoid this problem, it was decided to stratify streets and properties within each urban homesteading neighborhood according to their physical proximity to an urban homestead property. In this way, all streets, properties and residents within a given proximity class or category, could be compared across neighborhoods in a manner which was independent of the way in which the neighborhood boundaries were chosen.

To implement this sampling strategy, three "Proximity Categories" were used to classify streets and properties. Proximity Category I consists of all those blocks or properties which are located on the same block, adjoining block or parallel block once removed from a homestead property. Proximity Category II includes all blocks and properties located two or three blocks

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[1] See p. 33.

from the nearest homestead property, and Proximity Category III contains all those blocks or properties located more than three blocks from the nearest homestead property, but still within the urban homestead target area. The use of these "Proximity Cateogory" definitions is illustrated in Figure III.3-1, where homestead sites and Proximity Categories are shown in Cincinnati's urban homestead target area. Using this simple classification scheme, it becomes possible to make statements about the areas around urban homestead sites, irrespective of the way in which the city has defined its target area.

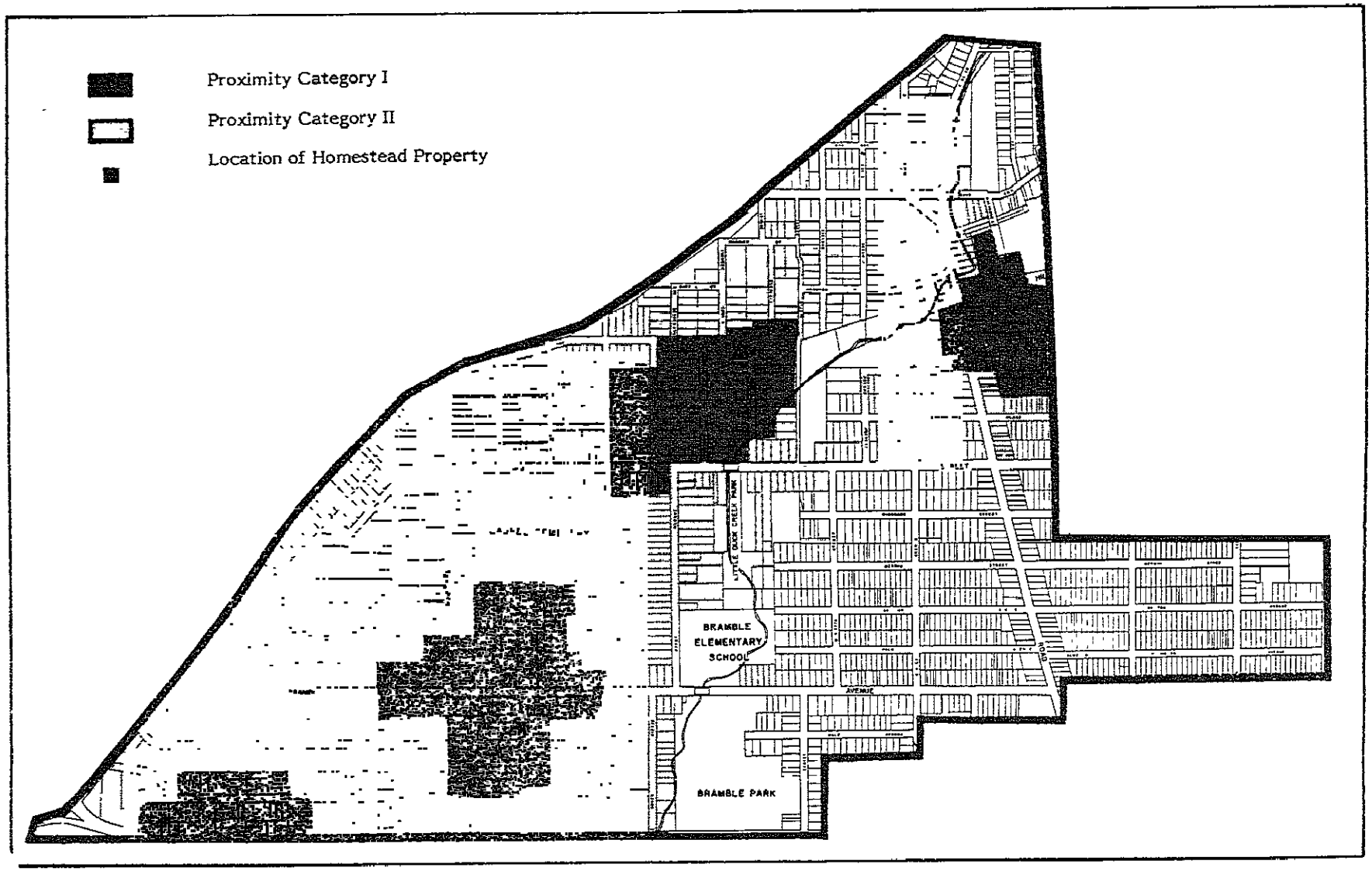
This sampling design also provides a means of testing for the existence of systematic "within-neighborhood" differences between sub-areas which are close to urban homesteads and sub-areas which are further away. If the tests are failed, then we can conclude that the neighborhoods are essentially homogenous and can be treated as single markets. If, on the other hand, statistically significant differences exist between sub-areas of the urban homesteading neighborhoods, this can provide potentially important insights into the process of neighborhood change.

The baseline survey data collected during the first year of the evaluation study demonstrate unequivocally that systematic and statistically significant differences do exist between areas progressively further removed from urban homestead sites. These differences exist along many dimensions and include differences in the demographic and socio-economic composition of the resident populations, in the condition of streets and properties and in patterns of mobility and housing tenure.

In presenting these results, the data from all 40 neighborhoods are pooled and then disaggregated by Proximity Category. The systematic Proximity Category effects which emerge relate to the pooled data and do not exist in every neighborhood.

Figure III.3-1

ILLUSTRATIVE MAP SHOWING PROXIMITY CATEGORIES IN CINCINNATI URBAN HOMESTEAD AREA



Demographic and Socioeconomic Differences Between Sub-Neighborhoods

Residents who live near homestead properties differ from residents who live further away in some, but not all, respects. The most striking difference is in the racial composition of residents of the three Proximity Categories. The percentage of white households ranges from 20 percent in Proximity Category I to 40 percent in Proximity Category III areas, thus effectively doubling as one moves three or more blocks in a direction away from an urban homestead property. The differences between residents in terms of other socioeconomic variables are much less dramatic, but still statistically significant in several instances. The percentage of female-headed households is higher in the vicinity of homestead properties, heads of household have typically had fewer years of education and have resided fewer years in the city than heads of households located further from the homestead sites. Very modest, and statistically insignificant differences in income, age and employment exist between Proximity Categories. These data, together with the appropriate tests for the equality of means across categories, are presented in Table III.3-1.

Table III.3-1

SOCIO-ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS OF RESIDENTS BY PROXIMITY CATEGORY

(n = 1,742)

	Proximity Category			
	I	II	III	Total
Income ($/Year)	10,530	10,610	10,675	10,600
Race (% Black/% White)**	78/20	61/33	55/40	65/31
Percent Female-Headed	33	31	27	30
Age of Head	45.9	46.1	47.6	46.5
Years of Education**	10.7	11.2	11.5	11.1
Percent Employed	64	61	61	62
Length of Residence in City**	19.7	21.8	25.4	22.2

Hypothesis that mean values are the same for each Proximity Category is rejected at 99% level (**).

Physical Differences Between Sub-Neighborhoods

There are systematic differences in the physical conditions of properties and streets in areas of progressively increasing distance from the urban homesteading properties. These differences include almost every dimension of physical condition on which survey data were collected and the direction of change is typically consistent as one moves from the areas closest to homestead properties, to areas at intermediate distances to areas furthest away.

The data which support these findings were collected in the course of windshield surveys of the urban homesteading neighborhoods. The surveyors were themselves unaware of the location of the homestead properties and of the classification of streets and properties in terms of proximity to homestead sites. The consistency of the differences between the physical characteristics of sub-neighborhoods cannot, therefore, be attributed in any way to possible survey bias.

Looking first at the characteristics of the housing stock disaggregated by Proximity Category, it is clear that there is a higher percentage of single-family homes in the vicinity of homesteads and that the percentage of structures which are of masonry as opposed to frame construction declines with distance from the urban homestead properties. The incidence of boarded-up properties, the condition of paintwork and the frequency of structural defects all decline with distance from the homestead sites. These findings, together with the appropriate significance levels, are presented in Table III.3-2.

Table III.3-2

CHARACTERISTICS OF RESIDENTIAL PROPERTIES BY PROXIMITY CATEGORY (n = 7,177)

	Proximity Category			
	I	II	III	Total
% of Single-Family Structures**	2.8	1.6	1.2	1.8
Construction Type** (% Masonry/% Frame)	39/27	33/32	27/38	32/33
Condition of Exterior Paint** Trim (% Good)	57	63	67	63
Condition of Other Exterior** Paint (% Good)	63	68	66	65
Condition of Structure (% Minor Defects)** (% Major Defects)*	9.1 0.7	4.9 0.3	4.2 0.2	5.8 0.4
Vacancy/Abandonment (% of Properties unoccupied and Boarded-Up)**	2.8	1.6	1.2	1.8
Average Number of Vacant Lots per Block	.4	.4	.5	.4

Hypothesis that Proximity has no effect rejected at 95% level (*) at 99% level (**).

The differences in the physical condition of neighborhood structures are not dramatic, but they are consistent in direction, with the exception of the incidence of vacant lots, where no significant differences exist. With respect to all measures of the condition and occupancy status of properties, the areas close to urban homestead sites are apparently in worse condition than areas further away.

Those findings are reinforced by examination of the condition of streets and sidewalks within the neighborhood. These appear to be

less well-maintained in the areas around urban homestead properties than in the areas further away. Once again there is a remarkable consistency in the direction of change as one moves through the three Proximity Categories (Table III.3-3).

Table III.3-3

CONDITIONS OF STREETS, SIDEWALKS, LIGHTS BY PROXIMITY CATEGORY
(n = 3,179)

	Proximity Category			
	I	II	III	Total
Road Surface** (% Good Condition)	77	81	84	82
Curbs** (% Good Condition)	80	89	86	86
Sidewalks (% Good Condition)	87	93	93	93
Streetlights (% Good Condition)	96	98	98	98
Litter** (% None Present)	42	50	55	50

Hypothesis that Proximity Category has no effect rejected at 95% level (*), at 99% level (**).

The differences between Proximity Categories are not dramatic when all neighborhoods are taken together, but they do indicate that there is a consistent tendency towards under-maintenance of the areas close to urban homestead properties. Taken together with a similar progression in the condition of residential structures, the evidence of systematic differences between these sub-neighborhoods is hard to resist.

So far the examination of differences between the proximity defined sub-neighborhoods has been limited to the socio-economic and demographic characteristics of residents and the physical conditions of streets and structures. The evidence for the existence of separate sub-markets can also be found through examination of tenure and mobility patterns which differ quite sharply between Proximity Categories.

The rate of homeownership in the urban homesteading neighborhoods varies with distance from the homestead properties. In part

this may reflect the higher frequency of single-family properties in areas close to the urban homesteads, but it is perhaps somewhat surprising that the incidence of physical defects among residential properties should be higher in areas where homeownership is also higher. In Table III.3-4, the distribution of residents by tenure class is presented for each Proximity Category.

Table III.3-4

PERCENTAGE DISTRIBUTION OF RESIDENTS BY TENURE CLASS AND PROXIMITY CATEGORY

	Proximity Category		
	I	II	III
Renters	28.0	37.2	36.4
Owners	72.0	62.8	63.6
Total	100.0	100.0	100.0

χ^2 test for independence between Tenure Type and Proximity Category rejects hypothesis at 99% level.

Despite the higher representation of owner-occupants in the areas around the homestead properties and the much lower mobility rate of owners than renters, the average length of residence in the current dwelling unit is only 8.0 years for Proximity Category I residents compared to 9.2 years and 11.0 years for residents of Proximity Categories II and III. These differences are significant at the 99% level. It would also appear that the heavier concentration of black residents in the Proximity Category I areas is being reinforced by recent patterns of mobility. Over the two and one-half year period ending December 31, 1976, less than 10 percent of the new owners in the areas closest to urban homesteads were white. These new owners can be contrasted with the other stream of new "owners" in Proximity Category I, the homesteaders, of which it is estimated that over 40 percent are white households. The homesteading program is therefore making some contribution to the maintenance of racial balance in those neighborhoods, especially in the areas immediately surrounding the homestead properties.

The significant "within-neighborhood" variation which is revealed by the geographic segmentation of these areas in the sampling design, has some implications for our understanding of the dynamics of neighborhood change and for the attribution of neighborhood change to urban homesteading activity. In the first place, it is clear that change has not occurred uniformly across these neighborhoods in the past. Taken together with the evidence of change between 1970 and 1977, it would appear likely that the areas around homestead properties have changed most quickly in recent years, with evidence of higher homeownership rates and a higher percentage of black households; both of these variables increased across all neighborhoods between 1970 and 1977. One issue is clearly the extent to which this change is already occurring, or is about to occur, in other areas within the urban homesteading neighborhoods. To the extent that the location of FHA foreclosures is the instrument for identifying these intra-neighborhood variations, continuation of these trends in other parts of the urban homesteading neighborhoods should be accompanied by FHA foreclosures in other areas. If those properties are, in turn, accepted for use in urban homesteading programs, the boundaries of the Proximity Categories will ultimately have to be redrawn.

There is little prima facie evidence that the kinds of change which have taken place in the areas close to urban homesteads are, in fact, particulary destabilizing. The new families in these areas are the economic equals of families elsewhere in the neighborhoods, they tend to have slightly higher rates of employment and are more frequently homeowners. The area of concern is the issue of the maintenance of properties and of the physical infrastructure which is the cities' responsibility. The evidence is convincing that the physical conditions, including the incidence of vacant properties, are significantly worse in the areas around the urban homestead sites.

III.4 THE URBAN HOMESTEADING NEIGHBORHOODS: PAST AND FUTURE CHANGES

In reviewing the evidence of change in the urban homesteading neighborhoods over recent years, one is struck by what appear to be strong secular movements of relative income, racial composition and homeownership growth, while at the same time being forced to recognize that those changes have taken place at very different rates in different neighborhoods. The temptation to generalize about these neighborhoods based on aggregate statistics of change, is therefore somewhat dangerous; few, if any, of the urban homesteading areas appear to be microcosms of the set of all neighborhoods. Even within individual urban homesteading neighborhoods, present conditions are frequently quite diverse. With these caveats in mind, it is still of interest to consider what the overall evidence of present conditions and past change suggests for the future of these neighborhoods taken together as a group.

In the earlier discussion of the process of neighborhood change, the role of metropolitan area market forces operating on neighborhood sub-markets received some attention. The importance of these forces, and in particular, of changes in the relative economic status of residential neighborhoods, is supported by the inter-temporal comparisons of these neighborhoods presented in Section III.1. Taken as a group, the urban homesteading neighborhoods have experienced a continued erosion in their economic status relative to the remainder of the metropolitan areas in which they are located. This finding is supported by the slower than average growth in residential property values in those areas and by the accompanying decline in the relative economic status of area residents. If data were available on property values in all neighborhoods within each of the metropolitan areas in which there are one or more urban homesteading neighborhoods, it would be possible to compute neighborhood price indices as was done by Little in St. Louis.[1] The results

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[1] James T. Little, "Residential Preferences, Neighborhood Filtering and Neighborhood Change," Journal Of Urban Economics, Volume 3, No. 1, January 1976.

of such an analysis would undoubtedly show that the relative ranking of the urban homesteading neighborhoods within the set of metropolitan neighbohrhoods had declined significantly since 1970.

The relative decline of property values in the urban homesteading areas, when compared with property values in the rest of the urban homesteading SMSAs, is not intrinsically undesirable. Downward movements in the relative price of older housing units make more housing available to less well-off households. However, viewed from the perspective of neighborhood stabilization policy and the desire to conserve the older housing stock, the rapid and continuous economic decline of residential neighborhoods may not be desirable. If economic decline is very rapid, the redistributional effects can be embittering for residents and unacceptable for public policy. Falling property values can create self-fulfilling expectations of further erosion of homeowners' equity and this in turn can lead to more rapid disinvestment and the progressive retirement of the housing stock. In the urban homesteading neighborhoods, continued economic decline measured either in terms of relative property values or of the economic circumstances of the area residents, would probably not be desirable given the recent history of quite rapid economic change.

The objective of neighborhood preservation is typically not to attract higher income households, but to achieve stability measured along several other dimensions. These include the maintenance of the housing stock, the provision of municipal services, and the attachment of residents to the neighborhood. Viewed from the perspective of these concerns, there are some grounds for encouragement to be found in the data on the urban homesteading neighborhoods. The changes in the economic conditions of these neighborhoods have been accompanied by a

significant increase in the rate of homeownership. Typically, these areas have provided opportunities for fairly young families, mostly black, to become homeowners for the first time. The overall rates of investment in the repair and improvement of properties in the urban homesteading neighborhoods compare favorably with national statistics on housing investment in central city properties.

It is clear from the analysis of intra-neighborhood variations in racial composition, in tenure patterns and in the mean length of residence in the dwelling unit, that these changes have not occurred uniformly within the urban homesteading neighborhoods. Typically certain sub-areas within the urban homesteading neighborhoods have accounted for more of the observed socio-economic and demographic changes than have other areas. These sub-areas, defined in terms of their physical proximity to the urban homestead sites, have higher rates of structural deficiencies and streets and sidewalks which are typically in worse condition. Unsurprisingly, since they were defined by the location of the urban homestead properties, they have higher rates of vacant, boarded-up and presumably foreclosed properties.

The concerns for the future of these neighborhoods can be to a large degree focussed on those sub-areas close to the homestead sites. The metamorphosis of these areas has clearly brought with it problems which may appear to jeopardize the housing stock and which are most dramatically symbolized by past FHA foreclosures, now the feedstock of local urban homesteading efforts. Given the influx of new homeowners of modest means, these problems are not surprising, but they create a real challenge for local officials and local residents who are attempting to preserve and maintain those neighborhoods.

The challenge lies in the gap between conditions in the areas around the urban homesteads and conditions in the areas further away. The secular forces which have contributed to this gap may, by operating on areas progressively further away from the urban homesteads, help to remove it. But removal may come as a result of physical deterioration in areas now further removed from homesteads,

rather than as a result of improvement in the physical conditions of those areas, close to the homestead sites, which are now lagging. Evidently, the return of vacant properties to the occupied housing stock through the mechanism of urban homesteading will contribute to closing the gap. In addition, local community development efforts, especially if they are concentrated in sub-areas around homesteads, will also provide the right kind of assistance.

These broad conclusions have implications for the analysis of second and third wave data on the urban homesteading neighborhoods. In particular, movements in the relative position of the urban homesteading sub-neighborhoods will be of considerable interest in determining the nature and causes of changes in those neighborhoods. These movements can, as has been already shown, be examined along a number of dimensions, including the economic circumstances of residents, demographic characteristics, investment behavior, property values, and physical conditions. Longitudinal comparisons between these sub-areas for each class of variables will permit an assessment of the extent to which changes in physical conditions are tied to changes in economic and demographic variables and the extent to which energetic neighborhood preservation efforts can alter those relationships.

There are a number of contrasts which will be used to assess the extent to which the urban homesteading program and related neighborhood preservation efforts are contributing to the stabilization of these neighborhoods. These contrasts, typically involving comparisons of data aggregated to the neighborhood or proximity category, levels include:

- Contrasts between annual change in property values, resident incomes, tenure patterns and other variables collected in the 1970 Census, with measured trends in those variations prior to the urban homesteading demonstration.

- Contrasts between sales prices of properties in the urban homesteading areas vs. selected control neighborhoods, adjusting for differences in the characteristics of the housing stock.
- Contrasts between changes in sub-areas close to urban homesteads with changes in sub-areas further removed from homesteads; those contrasts will involve investment rates, mobility patterns, property values, resident attitudes and the physical conditions of streets and properties.

Longitudinal data will also permit a much richer examination of behavioral data. Currently, the second wave of resident data is being used to examine mobility choices through mover/stayer comparisons and contrasts between in- and out-movers will permit much sharper estimates of the nature and speed of demographic and economic change. These analyses may permit the development and testing of formal models of neighborhood change which attempt to integrate disparate analyses of mobility, investment and housing price determination. These variables should in principle be solved for together in an internally consistent system, subject to the exogenous influences of the metropolitan area housing market. The relationship between these three sets of variables, especially the relationships between prices and investment and between prices and mobility are critical to the full understanding of the dynamics of neighborhood change.

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